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ABSTRACT

This document presents a description of the Minority Business Consulting Program, a graduate course at the University of Wisconsin Graduate School of Business. The report is presented for various audiences. It is presented as a working document for college instructors and administrators as a possible vehicle for a program in enterprise formation and small business management. The essence of this course was based on the field work of the student and not his in-class activity. The success of this field activity was based on obtaining clients who are willing to open up and share their feelings, burdens and failures with the student consultant. Case studies are presented that give great insight into the area of black capitalism, and some guides to the problems of creating small businesses are presented. See also HE 003 798. (HS)

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CONSULTING FOR BLACK ENTERPRISE...

A CHALLENGE TO THE BUSINESS ESTABLISHMENT

WILLIAM A. STRANG, PH. D.
RICHARD HAIRSTON
JEFFREY MAIKEN
HENRY TURNER

CONSULTING FOR BLACK ENTERPRISES . . . A CHALLENGE TO THE BUSINESS ESTABLISHMENT

What happens when fifteen graduate business students look beyond their classroom and try to inject textbook theories into small, decidedly non-theoretical, Black businesses? An account of the first such experiment at the University of Wisconsin Graduate School of Business in Madison is contained in "Consulting for Black Enterprises A Challenge to the Business Establishment "

The Wisconsin project, which began in 1969, took the form of a two-semester course directed by Dr William A Strang of the Graduate School of Business It was inspired by a broader program for minority business development at Columbia University and promoted by The Center for Venture Management and a grant from Milwaukee's Loewi Foundation The fifteen carefully selected students in the pioneer course spent the first month in classroom preparation which featured lectures by various business experts. Then they went "into the field," returning periodically to the classroom for more lectures and consultation

The seven small businesses chosen for the initial undertaking were an aluminum window manufacturer, a newspaper, a supermarket, a fast food franchiser, a television repair and sales store, a printer, and a trucking company The students were divided into consulting teams of two or three - with not more than one of the five Black students per team - and assigned to specific enterprises. They found themselves involved in the course beyond the call of duty, acting as salesmen, playing peacemaker for two estranged partners, and heroically sampling Mr R's Dandyburgers

A communications gap proved the biggest obstacle, students, frustrated by mistrust and reticence on the part of clients, recognized their own shortcomings in the empathy area Some clients hedged in showing financial data or were miffed by student criticism A few were unprofessional (notably the grocer who rarely removed his suit coat at work but took no corresponding pride in the appearance or efficiency of his declining store) Some did not bother to read student reports or follow advice, while others were too busy with business or outside concerns to take full advantage of the consulting service

Despite these disappointments and built-in drawbacks, such as a lack of time, the overall reaction was favorable One or two clients could point to direct business gains as a result of the course, while students enjoyed a unique opportunity to translate classroom theories to living situations, a special bonus when applied in the relatively neglected area of small business More important were the social reverberations of the program and the recognition by two, all too often alien, elements of society of what each could learn from the other

Title CONSULTING FOR BLACK ENTERPRISES A CHALLENGE TO THE BUSINESS ESTABLISHMENT - by Dr William A Strang and Others 1970
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The Center for Venture Management was established and initially endowed in 1968 by Mr. Karl A. Bostrom. He was Chairman of the Board of the Bostrom Corporation until 1967 when the company was acquired by Universal Oil Products Corporation.

The Center was founded in the belief that the dynamics and vitality of free enterprise is sustained by the continual birth of new enterprises and improvement of existing firms by increased sophistication of their management. Because of ever new technology and the increasing complexity of the economic and social environments, entrepreneurs should be sought out, encouraged and nurtured by new and improved means for transfer and exchange of knowledge and experience. The Center is the first of its kind whose objectives are primarily concerned with entrepreneurs and new enterprise formations. The monumental problems faced by all economies must be met by increasing productive wealth, a large part of which must be contributed by the new entrepreneurs, large and small. The Center will seek to meet these objectives through research and to make new knowledge available as widely as possible.

The Center for Venture Management is a Wisconsin non-profit corporation and registered with the Bureau of Internal Revenue as an exempt organization. It is headquartered in downtown Milwaukee, Wisconsin. The Center director was employed in July, 1968, and The Center opened operations as of that date. A Special Library specializing in the field of new enterprise formation and in studies of the entrepreneur are housed in the same office suite. The Center has no affiliation with any other organization or institution, but will seek to contract or participate with such organizations for these purposes through program development, research, seminars and conferences.

The Center welcomes those interested in research and other objectives related to the role of entrepreneurs in a free enterprise economy.

PREFACE

The Center for Venture Management is indeed pleased to present this document. It represents a collaborative effort of the highest order: The largess of an investment banker, the efforts of a research and educational organization, the wisdom and efforts of one of the most prestigious graduate schools of business and the enthusiasm and commitment of a select group of graduate students.

This report is presented for various audiences.

1. It is presented in its entirety as a working document for college instructors and administrators as a possible vehicle for a program in enterprise formation and small business management.

   The reader will note that the essence of this course was based on the field work of the student and not his "in-class" activity, and the success of this field activity is the obtaining of clients who are willing to open up and share their feelings, and burdens and their failures with the student-consultant.

2. For anyone working in the vineyard of "black capitalism", he will find the cases very insightful, and thus helpful in understanding the nature of the problems of black capitalism.

3. For anyone interested in the nature of small business and the human and organizational problems of small and/or growing small businesses, this volume speaks of the many assortments of "getting underway".

It is the purpose of The Center to study and be involved with the type of activities noted in this document. In this case, we were particularily elated at the results, and with the enthusiasm of all the parties involved. We present this document so that others with a sense of goodwill and interest will also develop that enthusiam which marks successful human action and the essential dignity of small business and black capitalism.

John L. Komives, Ph.D.,
Director of
THE CENTER FOR VENTURE MANAGEMENT

ACKNOWLEDGMENTS

We express our deepfelt appreciation to the 15 graduate business students who contributed so much of their time and energy to the consulting experience that is the basis of this book. We also want to thank the several black businessmen who were willing to take a chance on an untested program. Finally, we want to recognize Dr. John Komives, director of the Center for Venture Management, for his encouragement and assistance during the entire program and Marvin Swentkofske of the Loewi Foundation, who provided the financial assistance that enabled us to make our program a reality.

WILLIAM A. STRANG, PH. D.
RICHARD HAIRSTON
JEFFREY MAIKEN
HENRY TURNER

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SECTION I

GETTING INVOLVED

In the spring of 1968, a group of professors in the University of Wisconsin Graduate School of Business began meeting informally to discuss methods of involving the School in the social problems facing the nation. Clearly, the business establishment was directly and indirectly related to many of these problems. It was also clear that many business students felt the School had shown little initiative in working to solve these problems. Some new direction in both research and instruction seemed necessary. This section tells the story of the involvment of one group of students and faculty. The problems of program development are presented in considerable detail in the hope that others attempting similar programs will benefit from the mistakes and successes of this group.

A BEGINNING

October, 1968

Our Minority Business Consulting Program began very inauspiciously. One afternoon, another marketing professor stopped in my office and showed me a clipping that referred to Columbia University's MBA Consulting Program. Knowing of my interest in the development of black business, he asked if I would be interested in checking into the possibility of instituting such a program at Wisconsin. The proposal was intriguing and I agreed. Within a week, he had arranged for funds to cover the expenses of the investigation.

My first action was to call George Fraser at Columbia, who was directing their program. He told me they had been operating for less than a year, but that they were already serving more than 30 minority businesses in New York City. Their program was financed through a grant from Arthur D. Little, Inc. Student consultants were paid on an hourly basis for the time they spent working with their clients. Although Fraser was somewhat hesitant to evaluate the program at this point, he indicated that they were very enthusiastic about it and were looking forward to rapid expansion.

Encouraged, I began to formulate a very basic plan for such a program at our school. Our situation differed substantially from that at Columbia. Few black businesses existed in Madison. We would have to travel out of town to find clients. Also, Columbia had obtained a substantial grant to support their efforts. We could campaign for funds or try to work out a less expensive approach. After some thought and discussion with other interested faculty members, I decided we should build our program around a course that would be offered to graduate business students. Students would be paid in credits rather than dollars. Because Fraser had been very enthusiastic about the educational impact of the Columbia program, I was confident the course would be a legitimate addition to our curriculum. Students would take the course for two semesters,

receiving three credits each semester They would spend a month of intense classroom preparation and the next eight months working with their clients and meeting periodically with me and the rest of the class.

Another round of informal discussion with faculty members brought mixed reactions. Some felt student consulting was an extremely dangerous business and that the School should not take the risks involved. Others recognized the risks but thought the potential gains made the effort desirable. Student enthusiasm seemed strong. In December, I submitted the course proposal to the Graduate Studies Committee. (A copy of the proposal is presented in Appendix A.)

BLACK STUDENT CONCERN

January, 1969

In early January, the Graduate Studies Committee approved the course on an experimental basis. Although pleased, I began to wonder about my ability to carry out the commitment the course called for. My consulting experience was limited to marketing and I had no particular expertise with small business; while sincere about wanting to aid in the development of minority business, I had no special knowledge of the problems facing the black businessman.

Fortunately, at this time one of our black MBA students approached me and told me he and two other black students were interested in participating in the development of the course. I asked them to assist me. Later, they told me that they had been suspicious that the program would turn out to be "window dressing" for the School with little benefit to students or black businessmen.

February, 1969

In our early meetings, we realized that considerable field work was going to be necessary. None of us was knowledgeable about the inner city market area our clients were likely to come from. Our contacts with the white business community in Madison were also limited. Our specific objectives at this point were to:

1. Gain an understanding of the community that we would be working in.
2. Identify and elicit the cooperation of individuals and institutions that could help us to succeed.
3. Locate and evaluate potential clients.
4. Obtain suggestions from others as to how we should organize our program.
5. Identify problems we would be likely to face when the program began.

We knew the cooperation of the black community would be essential and that assistance from the white business community would be very helpful.

I visualized our program as a very small response to the black economic development needs of the community, a program oriented to serving individual businessmen on a personal basis. Because our program was to be organized around a university course that would be given for credit, I felt especially concerned that I retain complete control of our activities. As a result, we laid out the following ground rule before venturing into the field:

Control of the program was to remain entirely with the Graduate School of Business. Consultant-client relationships were to be private; the involvement of other groups would be at the client's discretion.

On our first trip into our market area we visited other business schools to gather information about the inner city and to present our plans to their faculty in the hopes they would institute similar programs. We also visited an Extension group working in the inner city. They guided us to others in the community — a black business development group, a young, aggressive black businessman, and a banker who was trying to help black business. These trips resulted in a growing pile of literature as well as an expanding list of potential clients. Some responded enthusiastically to our plans; others were dubious that we would accomplish anything useful.

A TRIAL RUN

March, 1969

Through the Extension group, we were introduced to a black businesswoman who needed immediate help. We volunteered to assist her, although our time was limited. It appeared to be a good opportunity to learn about the problems we would face later.

The experience proved valuable, but we failed to accomplish our consulting objectives to our satisfaction. Our client was personable and hardworking. She had built the foundations of a professional training school business, but she lacked management skills and had encountered financial difficulty. (Details about this case are presented in Section II.) We were able to do little more than provide advice; time prevented us from helping her follow through on our recommendations and she lacked the natural aptitude to do so on her own. We learned that little can be accomplished until rapport is firmly established, that it takes time to accurately establish a company's position, that entrepreneurial motivations are critical to the success of the business, and that working with clients who lack an aptitude for business is extremely difficult. These conclusions were to be verified when the program began in earnest.

STUDENTS AND MONEY

May, 1969

We needed to recruit students in the spring so that we would know how many businesses to recruit during the summer. A course application sheet was prepared (a copy is presented in Appendix B) to aid in selecting

students who were capable, experienced, and highly motivated. After two weeks of recruiting, 15 candidates were chosen from the applicants. These included five black MBA's. Interestingly, most students indicated their desire to take the course had less to do with social conscience than with the desire to learn about small business in a real world situation.

Now, it was imperative that we obtain financing. I estimated we needed approximately $4,000. A contact with the Center for Venture Management elicited a prompt response – the Center's funds were committed, but they would try to find funds elsewhere. In two weeks they had obtained the grant that we needed from the Loewi Foundation in Milwaukee. We had students and money; now we needed clients.

A SEARCH FOR CLIENTS

July, 1969

During the past several months, we had learned a great amount about the problems of consulting for ghetto business. As a result, we came to the following conclusions about the types of clients we should seek:

1. Clients should have a business operation with a significant potential impact on the black community. This impact could be in terms of employment, services, or the like. It could serve as an example for other minority businessmen. Operations with low growth potential were to be avoided.
2. The individual entrepreneur-managers should have good management potential. We wanted to avoid seemingly hopeless situations where clients would lack the capacity to learn from the interaction with a student consulting team.
3. Clients should have a need and a desire for management counseling.

With these criteria in hand, my research assistant began investigating several client leads. He also sought to expand our list of potential clients. His basic procedure was to obtain an introduction to a potential client through a contact that had already been developed. He then explained our program and determined the businessman's interest in participating. After this interview, he tried to get as much information about the individual entrepreneur-manager as he could from other sources in the community. Despite a disappointingly small list of potential clients, we were able to find several companies that appeared to meet our standards. All of the companies selected for a second interview were owned by black entrepreneurs. This list consisted of an aluminum window manufacturer, two supermarkets, a fast food franchiser, a TV repair and sales store, a printer, and a trucking company. After final interviews, we selected all the companies except one of the supermarkets. We were eager to begin working with them. All that remained was to prepare for the actual course work.

DEVELOPING A COURSE PLAN

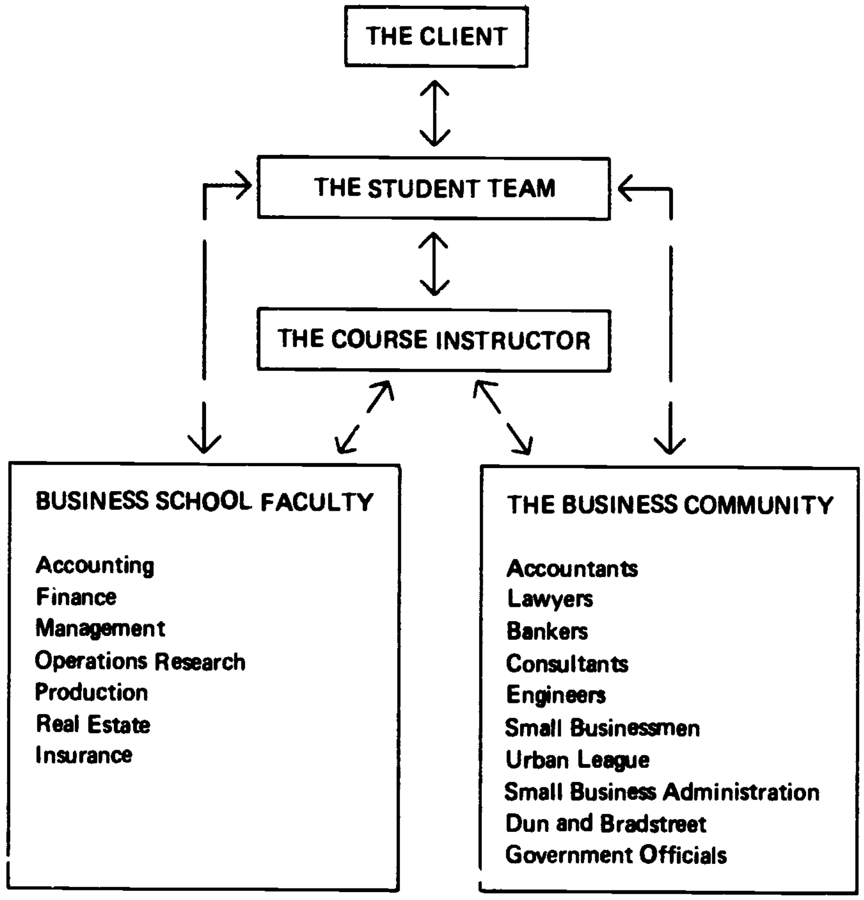
August, 1969

My basic plan for the course called for a four-week period at the beginning of the semester in which students were to receive a heavy load of classroom preparation before going out into the field. During this time, they would hear a number of guest speakers on the subjects of black-white relations, the problems of the black businessman, the problems of [illegible] ...ss, and the responsibilities of business consultants. [illegible] ...ld also be given their team assignments and would be responsible for independently familiarizing themselves with the industry in which they would be working. Readings included books and articles to sensitize them to attitudes in the black community as well as a small business management text.

For the remainder of the semester, the plan called for less frequent classroom meetings, weekly meetings of each team with me, and weekly visits with the client. Classroom work was oriented to the functional problems of small business. (A course outline is presented in Appendix C.)

Prior to sending students into the field, a list was drawn up of specialists, including the professors in fields outside marketing (my functional area of study), bankers, accountants, consultants, and others who offered to help the student teams. We wanted as much backup expertise as possible. Reaction to our program in the white business community had been largely negative. The reaction that I received at a governor's meeting of the Wisconsin business elite was typical. A vice president in one of the state's largest manufacturing firms stated, "You are ge...ng involved in a very dangerous business. These young men, lacking adequate business experience, are going to go out and run these businesses into the ground." We visualized our flow of business knowledge as pictured in Figure 1. As it turned out, most of our contacts were built up on an ad hoc basis as they were needed to help with particular problems.

Figure 1


THE CLIENT
THE STUDENT TEAM
THE COURSE INSTRUCTOR
BUSINESS SCHOOL FACULTY
Accounting
Finance
Management
Operations Research
Production
Real Estate
Insurance
THE BUSINESS COMMUNITY
Accountants
Lawyers
Bankers
Consultants
Engineers
Small Businessmen
Urban League
Small Business Administration
Dun and Bradstreet
Government Officials

EXPERIENCES

The reader has now received a rather complete description of the preparations made for our Minority Business Consulting Program. This chapter details our experiences in the classroom and in the field.

The Classroom Experience

Our classroom activities are presented here so that educators, should they desire to begin a similar program at their schools, may benefit from our apparent errors and successes.

On the second day of class, students were assigned to teams of two or three on the basis of several factors. Each team included at least one student that I had judged to nave good leadership qualities. Student work experience was related to client consulting needs wherever possible. Black students, whom I expected to have special capabilities in communicating with clients, were placed on separate teams. And finally, student desires were taken into consideration.

Our classes during the first month involved a succession of outside speakers. The desired format called for a short presentation to be followed by a question and answer session. Results varied dramatically. One day, the discussion would be highly productive and the next, there would be little response from the class. The major variable seemed to be the speaker and his willingness to respond to student questions in language that was explicit and unpretentious. Interestingly, the two most effective speakers of the entire year were a young black entrepreneur and an aggressive white entrepreneur in his 40's. Both spoke from recent experience and the students greatly respected their opinions.

The students were eager to venture into the field to meet their clients. In addition to the classroom activity, they had been interviewing owners of local businesses similar to their clients'. These businessmen were exceedingly cooperative during the year.

When the field visits began, our classroom activity diminished. Some presentations related to different functional problems of small business were made with varying effectiveness. Most of our time was spent discussing team problems and evaluating the progress we were making.

Each team began meeting regularly with me for one hour each week to discuss its experiences. These sessions allowed me some measure of control over the advice the student consultants were giving; they also provided me the opportunity to assist the teams in searching for solutions to the problems they faced. The weekly meetings revealed the depth of personal involvement the students developed with their client firms. One week they would be exuberant because their client had followed the team's advice and achieved some measure of success; the next week the team would be depressed because of some problem. As a warning to other professors contemplating a program such as this, I should mention that I too became very personally involved in the activities of our client firms. And because the individual failures outnumbered the successes, the experi-

ence was often frustrating. In spite of these disappointments, the students' tenacity and continued positive attitude toward the experiences provided great satisfaction.

The Field Experience

Most of what we learned and accomplished in the course came directly out of the student team consulting experiences. The highlights of these experiences follow. A more detailed case history of each team is presented in Section II.

THE GAZETTE

The *Gazette* is one of two metropolitan newspapers designed primarily for black readership within its city. Its readership is estimated at 8,000-12,000. The newspaper, a weekly, features local news concerning the black community, but also prints news items and editorials picked up from national black wire services. Fred Jackson, the owner-publisher, started the newspaper five years ago. His principal assistant is the advertising manager, Harry Thompson.

Intent on becoming a first-rate newspaper, the *Gazette* had reached the point where it wanted to offer marketing services to its advertisers, similar to those services offered by major metropolitan newspapers. Over the last two years, the *Gazette* had conducted several telephone surveys of subscribers to determine demographic characteristics and consumer preference information. Although sketchy and hardly conclusive, this profile information was used successfully in selling advertising space to local and national companies.

The *Gazette* management felt that more sophisticated data would be valuable as a selling tool for its ad space salesmen and as a quick marketing reference for its advertisers.

Impressed by a student consulting team helping a friend of his, Jackson contacted the University of Wisconsin Graduate School of Business to see if he could obtain help. A preliminary meeting was held to determine his needs and evaluate the appropriateness of having a consulting team work with him. At this meeting, we were impressed with the physical facilities and the quality of the newspaper. We agreed to help.

A consulting team was to be made available for a two-month period to outline a "Guide to Marketing in the Inner City." We understood that the students would propose an outline to the "Guide," and would also gather available information and suggest methods of obtaining additional needed data. The newspaper staff would prepare the publication.

When the student team first met with Jackson and Thompson, they were uncertain as to what they were expected to do. Jackson was vague about the assignment and did not seem to recall the earlier meeting's results. He turned the student consultants over to Thompson, who seemed even less familiar with the proposed project. It did not seem that the *Gazette's* management had talked the project over to establish what they really wanted done for them. Thompson felt he already had all the demographic

data he needed; he wanted information about consumer buying habits in the inner city.

After additional meetings, the team decided to investigate alternative approaches to a market survey of inner city residents. This was done and a report was mailed to the Gazette for study prior to a final meeting in which the students would answer any questions that might have arisen. However, at the meeting, it was apparent that the report had not been studied. The students left this assignment not really knowing whether they had accomplished anything.

Aside from the difficulties in determining the objectives of their assignment, the students encountered another major problem. The Gazette management, having built up a successful business, seemed reluctant to admit that the students might know something they did not. Through considerable effort, the team did discover that Thompson was misinformed about potential sources of information, but they were unable to effectively communicate this because of the barrier between the team and management.

CENTRAL CITY SUPERMARKET

Central City Supermarket is a medium-sized food store catering to a neighborhood clientele in our market area. Sales have been approximately $450,000 annually. When the team began working with Bob Edwards, the manager (at the time, the team thought that he was also the owner), sales were declining, profits were down, and employee turnover was high.

After familiarizing themselves with the store's operating procedures, the student consultants met with Edwards to discuss the problem areas they had identified and to determine his priorities for making improvements. There was general agreement among the team members that the most pressing problems were a disorganized stockroom, poor merchandising, faulty pricing, and generally poor housekeeping.

Edwards recognized most of the problems. At his suggestion, the student consultants first established an inventory control system for the stockroom. However, Edwards and the other store personnel failed to adapt the suggestions made by the team. The team also attempted to establish a consistent pricing policy and improve merchandising practices. Minor changes were made in the store's operations, but basic problems resulting in declining sales and customer dissatisfaction remained.

From the beginning, it was apparent that Edwards' major problem was a lack of self-motivation. He attempted to play the role of a successful businessman, but was unwilling to put forth the effort needed to put the store back on its feet. He resisted many of the ideas put forth by the student team as though they were a challenge to his self-image. At other times, he initially welcomed suggestions, but failed to put them into practice. He was involved in several community projects and these appeared to have a higher priority for him than the store's operations. As a result, business continued to lag, his personnel became unhappy and productivity declined.

The team made one last attempt to interest Edwards in improving his business by designing a major campaign entitled "Operation Turnaround." It was basically a marketing plan to increase sales volume through newspaper and in-store advertising and the use of celebrities to draw crowds. Prior to the proposed promotion, the team felt it was necessary to correct several in-store difficulties (reset sections, improve stocking procedures, clean up, and the like). Capital requirements for the campaign were minimal, and Edwards seemed enthusiastic.

At this point, the team discovered Edwards was not the owner of the store and shortly after, due to the faltering financial situation, the owner fired Edwards and brought in a new manager. For the first time, the owner learned that student consultants had been working with the business. Clearly, they had not been able to positively affect the store's operations in the past, and they were asked not to help the new manager.

There appear to be two major reasons why the team members were unable to help the Central City Supermarket. First, they did not receive adequate information about the store's operations. They didn't know Edwards only managed the store; they did not see financial statements until it was too late. As a result, they were unable to accurately define the problems facing Edwards and the store.

Second, their consulting advice could only supplement basic management ability and desire. Edwards, although he had the potential to manage well, did not have the incentive to do so. His personal goals did not strongly relate to the store's operations. The student team could only take solace in the fact that some of their less important suggestions had been implemented and had helped the business.

RELIABLE TELEVISION SALES AND SERVICE

Reliable TV Sales and Service, a small TV repair business, is owned by Charles Davis. From its inception in 1962, the firm's success has been sporadic and the organization has grown with few goals in mind. Davis, as the chief policymaker, is the key to the success or failure of the firm.

When the student team first began working with Davis, they were impressed with his knowledge of basic business principles, his own business, his market, and his competition. He appeared to know what he was doing.

At Davis' request, the team's first project was the development of an inventory control system. The students were enthusiastic, because they saw this as an opportunity to impress Davis with a concrete example of their work and therefore win his confidence. To their dismay, the new inventory control system was not utilized. This was the first of several projects that met with a negative response in spite of the fact that the technical advice offered seemed sound. Davis appeared to resist the idea that someone else might have knowledge he lacked.

After a few months, Davis asked the team to investigate the possibility of obtaining a full-line television-radio distributorship from a major manufacturer, such as RCA or GE. He seemed very enthusiastic about this

project and the team began to develop a proposal. They contacted executives in several major manufacturing companies and personal meetings were arranged. The meetings went well — Davis impressed the company representtatives who indicated an interest in working out an arrangement. Further information was to be developed and set to the companies for evaluation.

Unfortunately, Reliable had had no financial statements since 1967. In 1969, Arthur Andersen and Company had donated its services to prepare the missing statements and to institute an effective bookkeeping system. However, these statements had not yet been prepared, primarily because of difficulties in obtaining the needed primary data. While waiting for the financial data, the student team studied various aspects of distributorship operations. Davis was asked to prepare sales forcasts. Several meetings between the team and Davis were held for the purpose of clarifying his objectives and preparing a plan for operations. The team felt Davis was not realistically judging either the problems of a distributorship or his capabilities.

When the financial statements became available, the student team realized that even they had been overly optimistic. The business was in considerably worse financial shape than they had been told and the chances of obtaining a distributorship seemed remote and even undersirable until the basic operation was put back on its feet. Time had also run out for the student team as the academic year was drawing to a close. They concluded their assignment by preparing a final report that bluntly evaluated the potential of the business. Based on their past experience, they were not certain that Davis would even bother to read the report.

QUALITY PRINTERS, INC.

Quality Printers, a printing and letter shop operated by Mr. and Mrs. David Jefferson, had sales of $32,000 in 1969. Mrs. Jefferson managed the business and did the typing and mailing, while her husband operated the presses when not working at his factory job.

An initial analysis of financial statements indicated that the firm's profitability was overstated; the Jeffersons were not paying themselves salaries. The student team concluded, after a ratio analysis (a comparison with the industry) that the firm's greatest problem was low sales. Therefore, the team set out to work toward increasing sales.

Previously, Quality had put no effort into personal selling. Nearly all of its business was obtained through referrals from satisfied clients. Acting as temporary salesmen, the team members made some valuable contracts and brought in additional sales. But they did fail to convince the Jeffersons of the importance of setting up a selling program on a permanent basis.

Quality's principal means of advertising was mailing of monthly and annual calendars. In discussing this approach with several of Quality's clients, the team found this was an ineffective and fairly expensive advertising tool. They made suggestions for a direct mail campaign, but the Jeffersons were not enthusiastic.

One problem which hindered Quality's overall efficiency was the lack of a formal system for computing costs when estimating jobs. The team designed a simple estimating form which could be permanently filed upon completion of the job. However, this was not initially accepted by the Jeffersons.

To improve internal control, the team worked with Mrs. Jefferson and the bookkeeper to set up a consistent filing system of work in process, work completed, and billing. Previously there had been no system and many customers were never billed.

One of the firm's strongest selling points was its quality control. The rigid control, however, pushed up labor costs and created backlogs. At the suggestion of the team, Mrs. Jefferson initiated a sampling technique for proofing which greatly speeded production. To Mrs. Jefferson's surprise, quality control did not suffer as she had expected.

After several discouraging attempts to help the Jeffersons, the team confronted them with an objective appraisal of what they had observed and what they were trying to do. The team felt that the Jeffersons were simply maintaining an expensive hobby and there seemed to be little enthusiasm to improve the business. The Jeffersons felt many of their problems were due to being understaffed. Mrs. Jefferson explained that she couldn't do everything. The team agreed whole-heartedly and explained if increased growth were desired, able assistants and an outside salesman should be hired.

The discussion proved fruitful; many of the previous suggestions by the team were slowly, but surely put into effect. At the end of the year the team felt their major contribution to Quality Printers had been the impetus they had given the Jeffersons to assess their own capabilities and establish some concrete goals and a positive direction for the firm.

AMITY ALUMINUM PRODUCTS, INC.

Amity Aluminum is a small manufacturer of aluminum screen and glass windows and doors. It also does some repair work and handles awnings and aluminum siding on a wholesale basis. Total 1969 sales were $32,000. Although the firm had three principal stockholders, James Wright was the chief operating officer. One problem facing Amity was the dependence of the entire operation on Wright, who had made little effort to delegate responsibility.

From the beginning of their consulting relationship, the student team felt it was going to be amiable and productive.

Initially, the team noted that the firm's financial statements were poorly prepared. Based on the students' suggestion, Amity engaged a local CPA firm, and an effective accounting system was implemented.

Enlisting the aid of a local mechanical engineer, the team reviewed Amity's production system. The review included an evaluation of potential new production machinery. The student team concluded that the existing production setup was adequate given the current sales volume and they

convinced the Amity management that new machinery should not be purchased until the need truly arose.

The major problem facing the firm was low sales and the team prepared a marketing plan during the slow winter months that could be instituted in the spring selling season. Wright agreed with the plans. Amity's product was high quality and fairly high priced. The firm had been selling on the basis of fast service and a dependable product. It was agreed that it should continue this theme.

A direct mail campaign was developed and materials were printed at reasonable cost. The students, together with Wright, made sales calls on several potentially large buyers. In addition to making some sales, they learned a great deal about market needs. In the early spring, they convinced Amity management to participate in a local home show. This moderate investment proved profitable; several sales were made at the show.

A local bank had indicated an interest in helping minority enterprise and the student team suggested that the firm deposit its funds in the bank and try to get all the help it could. Initially, the bank was used to build up contacts in the community. It helped to organize a breakfast for several community leaders, especially those in the building industry. At the breakfast, a very low-key sales pitch was made for the company. An attending newspaper reporter wrote a very positive story about the affair, that resulted in effective publicity.

As the academic year drew to a close, the student team felt it had achieved what it had set out to do. By June, the firm's sales had equalled those of the previous year and the outlook was bright. Some new problems arose as a result of the increased sales, however, and it was recommended that another student team work with the company for another year. The students recognized that their success was primarily due to Wright's motivation, capability, and willingness to improve his business.

MR. R's HAMBURGERS

Mr. R's Hamburgers is a subfranchising fast food chain connected with a national chain. Mr. R's objective is to establish minority-owned franchise units in inner city areas in the Midwest. Currently, only one unit is open, with another to open shortly. The firm intends to open a cluster of five to ten units in the next three to five years.

Bill Roberts, president of Mr. R's, learned about the student consulting program during the summer of its organization and indicated a strong desire to participate. He was involved in several businesses, including a family billiards parlor, a newspaper, and Mr. R's. He is an exceedingly personable, ambitious, and capable young man. Roberts became interested in a business career after several years experience with the YMCA. His college training was in the liberal arts.

The first major assignment he gave to the student consultants involved the development of an organization scheme that would be suitable for a multi-unit operation. Working with Roberts, the students were successful

in building an organization proposal that was accepted as a blueprint for growth.

Next, the students began working on an investment portfolio that could be used to attract investors, lenders, and/or franchisees. They prepared an outline of the desired content with the help of a banker and began to gather data. As they studied the financial statements of the current operation (to aid in preparing pro-forma statements for the "typical" unit), they discovered that Mr. R's accounting system had some weaknesses. In a fruitful discussion with Roberts, they worked out solutions to some of the problems with the existing statement. The most serious were fluctuations in month to month expenses because of inadequate inventory procedures and placing of certain expenses in inappropriate categories. The portfolio was completed with the understanding that Roberts would finalize it. Up to this point, the only difficulty that the team had encountered was getting together with Roberts, who divided his time between his other business and community activities.

For the next several weeks, the team had no major assignment and it drifted from one problem to another, identifying difficulties and proposing solutions with little follow through. The students conducted a market survey of Mr. R's customers with only moderate success. Their survey design was well done and was simple enough to be done with minimal expense, but Roberts, who had shown initial enthusiasm, got sidetracked on problems related to his other businesses and failed to follow through as he had agreed.

Overall, the team felt it had achieved a measure of success in its work with Mr. R's, but the students were disappointed about the lack of continuity in their work. At times, Roberts was preoccupied with problems outside the immediate business and did not seem interested in the student contributions; at other times he was enthusiastic and encouraging. Roberts was generally pleased with the students' efforts and requested a team for the following year. He admitted that to some extent he used them to add credence to his business abilities when he talked with bankers and other businessmen.

QUALITY TRUCKING, INC.

Quality Trucking is a contract carrier hauling principally to 18 counties in the state. Organized in 1965, it has boosted its sales from less than $70,000 to $180,000 annually in 1969. However, as sales have grown, profits have fallen off in absolute terms. Approximately 60 percent of company sales come from one major account, the largest furniture store in the company's home city. The remainder of sales are equally divided between a firm that produces data processing materials and several other smaller accounts.

The firm is owned and managed by two partners, Richard Jones and James Kronsky. The student consulting team was requested by Jones, the black partner.

The team had difficulty making its initial contact with Jones, who

failed to show up for several meetings. During this period, the students familiarized themselves with several aspects of the trucking industry. When contact was first established, they reviewed the firm's financial statements which suggested that sales growth was adequate, but that expenses were uncontrolled, causing profits to suffer.

Unfortunately, during the early consulting period the team was requested to pursue several projects not directly related to the principal business. These involved ventures that had been proposed to the company as a means of expansion. Most of the ideas, however, were eventually dropped because they were not sound.

After spending several weeks with the firm, the student team concluded that Quality's most severe problem was the conflict between the two partners. Kronsky seemed to make all the decisions and yet he lacked knowledge of management techniques. Worse, he resisted change and distrusted the students because of their association with books and learning. Jones was quite receptive to new ideas, but he did not have the strong personality to see that they were carried out in the face of Kronsky's opposition. The conflict was a factor in many of the problems facing the company, including poor employee morale and lack of any internal control system.

The student team spoke with both men in cautious terms, pointing out the need for using the ideas of both, substantiating their statements with evidence gathered within the company and from other firms. However, Kronsky proved too set in his ways to change or to accept sound advice from others, including his own partner.

Considerable time and effort was spent on the partner problem to little effect. The team finally turned to several specific projects related to the business operation — a vehicle maintenance system, a pricing system, a revised accounting system, and other lesser assignments. As the school year closed, the students made detailed proposals to solve Quality's management problems. Because of the partner conflict, however, they suspected their ideas would not be adopted.

LOOKING BACK

Looking back, we have the opportunity to correct our weaknesses and build on our strengths. An even more basic judgment is whether our efforts were worthwhile.

General faculty reaction to the program was encouraging. Although most faculty members did not become directly involved in the program, many of them helped advise the student consultants about specific problems they encountered in their assignments. The Graduate Studies Committee approved the course for the following year.

As the professor in charge, I was generally pleased with our program results. I have never taught a course in which I felt as close to my students. The students, motivated and capable, provided valuable advice to their clients. Monitoring their activities, I learned a great deal

about small business, black business, and the students themselves. And I think the students learned. But perhaps the most valid evaluation of the program comes from the student consultants and their clients.

Student Reactions to the Course

The overall student reaction to the course was overwhelmingly favorable. Based on the opinions of the class participants, Business 792 ranked high in terms of relevance, challenge and reward.

The content of the course offered the students a unique opportunity to (1) integrate practical and theoretical knowledge in the solution of real business problems, (2) tailor problem solutions to fit specific cases, as opposed to the general approach taken textbook situations, and implement the solutions, (3) make a contribution to the community, (4) gain an insight into small business and black capitalism, and (5) develop skills in interpersonal, business relationships.

Structural strengths include (1) the relatively informal atmosphere of the class, (2) the small class size, (3) the presentation of guest speakers, (4) regular close contact with the instructor, and (5) the use of teams.

Some of the students' reactions follow.

"This was probably one of the most rewarding courses I've ever taken. In addition to the chance to put to work some of the principles I've learned, I had the opportunity to see how important interpersonal relationships can be to the success of a group undertaking. This was apparent from our relationships with our client and the relationships within our group."

"As a future entrepreneur, I will probably realize the benefits of this experience for some time in the future. My one regret is that I could not participate in the program for more than one year. Maximum use should be made of the documentations of the yearly experiences. Perhaps after the course is more fully developed and more widely known, it will attract enough students such that the instructor can be very selective in choosing the participants."

"I consider this course the most worthwhile I've taken at the University of Wisconsin. I have been isolated from ghetto problems and this course gave me an excellent opportunity to explore the potential role small business has in solving some of the ghetto problems."

"This course has given me some direct business experience which I needed to supplement classroom work. It is easy to solve a problem in a case and forget about it. It is more difficult to identify an actual problem, and work through analysis and implementation. The solution cannot be general but must be tailored to the specific situation."

"Working as a student consultant this past year has been one of the most informative experiences of my MBA program. The course truly was, as the poster on the bulletin board said, a living course. At times I was frustrated but on more numberous occasions I felt a deep sense of accomplishment. I would not hesitate to recommend the course to qualified, competent individuals who feel a need to help other people.

"I feel that universities have a responsibility to serve the community.

Unfortunately, in the past the community has been defined as the great white middle-class majority. I am glad to see the Business School make an attempt to rectify this situation and help those who need and deserve the help that universities with their academic resources can supply. I am proud to have been a part of this experiment and I hope it can be expanded in the future so more people in more areas can be helped."

"At best, it is difficult to put on paper the frustrations, lessons, joys, and sorrows we experienced in working with our client. We think the course has been meaningful and beneficial. It involved us in an ongoing firm on a day-to-day basis. It required us to integrate all of the functional areas of a business in analyzing problems and proposing solutions. Quality Printing was a living case. As such, we had to use our textbook knowledge in a manner beneficial to the firm. We were forced to face reality and not ignore the small details that are readily assumed in large, well organized firms. We are now able to understand the frustrations of the small black entrepreneur who operates with unsophisticated techniques and insufficient capital. We are able to empathize with small businessmen."

"One of the unique features of the course is that we were able to obtain feedback which indicated whether we had made the correct analysis and assumptions in evaluating a problem."

"The course pointed out clearly that black capitalism is a realistic solution to some of the problems of minority groups, rather than merely an abstract term used in political jargon."

"The course was invaluable in fostering teamwork. We became more open-minded in discussing the advantages and disadvantages of a suggestion offered by a team member. The same objectivity carried forward to our dealing with our clients."

"The consulting structure or format is the course's greatest attribute. The course offers the interested and motivated student a vehicle for implementing his solutions to problems he has defined. As a student consultant you are forced to make suggestions that can and do affect the operations of the client company. In typical classroom situations your work has ended when you hand in your report outlining proposed solutions. In the consulting situation the preparation and submission of your proposals is only the first step in serving your client. You are no longer allowed the luxury of sitting back, hands behind your head, to philosophize; you must come up with realistic workable solutions to the everyday problems of running a business."

"I expected this course to offer practical experience and insights in problem solving and living with the day-to-day frustrations of running a business; I think everyone expected this. However, I did not expect it to be a 'short course' in the psychology of small group behavior. The experience of working as a group were unique to any I have ever experienced."

"Business 792 has certainly been the most demanding course either of us has taken at the University. It has required expending a great amount of time both formally with our clients and informally as a team working on their problems. It has forced us to integrate, with one common goal, all the knowledge of the various facets of business which we have accumulated in our MBA career. Most important of all, however, it has taught us the problems encountered by a small businessman with limited funds. University courses are generally designed to prepare a student for working in a large corporation, with large problems and unlimited capital to solve these problems. Business 792 exposed

us to a different situation — the constant day-to-day problems of operation that often threaten the very existence of the small businessman."

"The fact that this course was flexible in structure provided ideal laboratory conditions to fit each individual team and its respective clients. Some of the speakers offered invaluable information that was suited not only to needs of the firm but, in general, to each student. The major strength of the course is the opportunity it provides for the student as a representative of the University to be relevant and make a contribution to the community."

"The course gave me perspective. It placed a practical relative weight on what I had learned in the MBA program. it helped me to start thinking as a generalist. In my mind, it's hard to beat strong, honest academic exposure and simultaneous real world experience for sound learning potential. Additionally, I learned a lot about black economic development, and formed opinions that will guide me in the future."

"The course gave me the opportunity to tailor my college training to the needs of small business. It helped me to understand the business conditions in underdeveloped areas of a large city. It reinforced my belief that one answer to the ghetto problem is to strengthen black business, because black business needs it. It made me aware of the immense problem of trying to change a person's behavior to make him a successful businessman. It demonstrated how ineffective our government agencies can be and, on the other hand, how 'big business,' i.e., Arthur Andersen & Co., Loewi & Co., RCA, GE, and Sylvania, are trying to get into the picture and seem to have a sense of social responsibility."

"The strength of any course of this type is that it offers the participants the opportunity to use and improve their business skills under real-world conditions. This course also offers the opportunity to integrate knowledge from the different functional areas and forces one to view business from a total perspective."

Client Reactions to the Program

At the close of the academic year, we brought the clients together to discuss the program. Students were not present so that the discussion would be frank as possible.

The clients' reactions to the experience of working with a student consulting team were mixed. Two were very enthusiastic. One felt the students had had a very direct impact on the growing success of his business and that he had needed their advice to overcome several hurdles. The other, who had an ongoing business of considerable success at the inception of the program, was very pleased to have the student team available to work on specific problems that required professional advice.

Two others were mildly encouraging. Both respected the quality of the student advice, but one insisted he would have come to the same conclusions himself over time and the other had found that internal company problems had prevented him from acting on the advice he had received. The latter also felt the students had not been able to help him solve his most serious problem, a personality conflict within the firm, although he admitted they probably could not have done anything about it. Both of these clients recommended that the program be continued.

The final two clients present (the seventh did not attend the meeting) had mixed feelings about the program. Both had made little effective use of the student consulting teams and they stated at the meeting that they doubted the students knew anything they did not already know. One of them stated that if he wanted professional help in the future he would go out and hire a bonafide management consultant. However, they indicated they felt the student consultants were capable and would be successful once they had gained some practical business experience.

Weaknesses in the Program/Course

As might be expected, certain changes in the program are indicated, if it is to be more effective in the future. The students suggested several specific changes, primarily of a mechanical nature:

1. Get teams into the field more quickly – due to the amount of time required to build a meaningful rapport with the client, teams should meet with their clients as soon as possible.
2. Drop the requirement for a textbook; however, extensive reading should be required in journals, magazines, newspapers, studies, etc., concerning black culture, economic development of the ghetto economy, etc.
3. Provide office space and a part-time typist for the student teams.
4. Utilize role playing to develop personal skills in handling difficult situations.
5. Try to find more clients in the "home city" to reduce the need for travel.

The criticisms made by the students are valid and their recommendations will be adopted. After synthesizing the student and client reactions to the course with my own impressions, several additional changes will be made.

Classroom Activity

During the first semester, in particular, too much time was devoted to discussion about the functional areas of business as they applied to small business. Effective written material was scarce and speakers were not always the best. Students were more oriented to solving the specific problems of their business and showed a general disinterest in material not directly related to these problems. They felt they were reasonably well prepared in a technical sense with background courses in the functional areas.

As a result, more classroom time will be devoted to discussions of team problems among the entire class. When possible, outside experts skilled in the solution of the specific problems being considered will be asked to participate in the discussion on the same basis as the students.

We will also devote more time developing student abilities to influence client attitudes. Hopefully, this will enable them to be more effective in their consulting relationships.

Field Activities

As the first year's program drew to a close, we attempted to evaluate the entire program in light of the original objectives. Our original objectives had been: (1) to provide help to the black entrepreneur, and (2) to offer the student a practical approach to problem solving, or simply provide a learning experience. We discovered that the learning more or less happens, regardless of the objective, and the primary focus should be to provide help. However, the lack of more specific objectives resulted in some student confusion as to what they were to accomplish and how to go about doing it.

Although the program provided a great educational experience for students, policies and priorities should have been established so that the program could have been continously evaluated as to its immediate and overall effectiveness. For example, such policies as below should be established.

1. Clients will be expected to provide complete financial data, such as is available and any information needed to fully understand the firm's business situation.

2. Students will be expected to devote adequate time (half day per week) on a flexible basis, working directly with the business.

3. Clients are free to drop the program at any time.

4. Clients are free to contact the professor in charge at any time.

5. Students should be objective in their evaluation of the business situation at all times.

6. Students, together with the professor in charge, shall have the right to discontinue the team/consultant relationship at any time, if neither party appears to be benefitting from it. (In the event this happens, contingency plans should be built into the program, e.g., spread students around to other teams, take on a new client, etc.)

As the students' comments indicated, the course certainly provided a much needed relevance to the MBA program. However, few students' remarks expressed satisfaction in helping the client to the point of improving economic development in the ghetto. In only two instances did the economic situations of the clients improve such that we could claim direct benefit to the firm. In dollars and cents terms, we failed more often than not.

In some respects we can justify our existence as student consultants solely on the basis of our special skills in business management. We also feel that improving a business in dollar and cents terms is a legitimate goal for such a program as this. However, the reasons for our failures require further analysis. We may have been involved in some situations where nothing positive could have been accomplished. Thus, in the future it is essential that we take greater care in selecting clients. We will favor firms that have a good potential in terms of growth, employment, and service to the community with a special interest in those firms which show a motivation in improving themselves. In light of the many political

segments operating within the inner city, we feel that is is best not to align our program with any one segment, but to maintain a good working relationship with all of them.

However, inadequate selection by no means explains our failures. We had not anticipated such inherent problems as the difficulty in establishing effective communications between client and consultant. It would be easy, but quite misleading, to say the major weakness in our consulting activities was the failure of clients to act on the sound advice they were given. Instead, we must ask oursleves why wasn't this advice accepted and how could we have improved the communications flow?

Simply assigning a black student to each team was not enough to insure effective communications between the team and the client. There was no doubt that our students were able to offer enough expertise to iron out basic business problems in a small business, but we found the real challenge to be thoroughly understanding the client's goals, identifying the forces that motivated him, and then combining them to achieve "success" in the eyes of the client. Too often, the teams set the standards for success, which led to misunderstandings and frustrations for the students and the clients.

Any time students offer help to small businessmen there is going to be an immediate wall of distrust built up. This wall must be broken down and a relationship built on mutual confidence before any advice can be given by the student and willingly accepted by the client. This type of program is not the true consulting experience. The fact that the students are for the most part inexperienced and the clients are not paying for their services, changes some of the rules of the game. Of primary importance, is that the student's actions be dictated by a delicate balance of sensitivity, empathy and confidence.

More time should be spent evaluating each team's consulting tecnniques, rather than on the actual advice or plans being offered to specific clients. On the one hand, there are the technical problems, problem identification, and sorting the meaningful out of apparently incoherent information and formulating solutions in practical terms. On the other hand, ideas must be effectively communicated to the client in terms that are meaningful to him (the language or idiosyncrasies of ghetto business may require thoughtful translations of corporate-oriented terminology).

Not to be forgotten is the need to constantly evaluate the intra-team relationships. As we found out, conflicts within a team have an extremely harmful effect on the team/client relationship This requires an honesty on the part of each team member to objectively evaluate his own contributions to the team effort.

We admit to having made many mistakes in getting this program off the ground. But, we feel that basically we have a sound idea — one, which if effectively carried out can provide a positive influence in developing the ghetto economy. As we launch into our second year we intend to keep reminding ourselves of several key phrases — effective communications, empathy, and flexibility.

Summary

Our experiences in the minority business consulting program we developed have been extremely rewarding. From the students' point of view, their participation taught them a great deal and provided considerable satisfaction. The clients generally agreed that the venture was sound and should be continued.

The need for minority economic development in this country is great. Achieving this development is a complicated, many-faceted challenge that will require efforts on many fronts. Minority consulting programs organized in the nation's business schools offer relevance and learning. They are but a small element of the total requirements for an effective program for development, but they can be significant. Many schools already have such programs. We hope that others will join in the effort and that they will be able to learn from our successes and failures.

SECTION II

CASE HISTORIES

Case histories of each client firm are presented in this section. Our intent is to provide material that will enable the reader to visualize the business and interpersonal problems the student consultants encountered. Each case is written from the viewpoint of the student team; every attempt is made, however, to present the cases as objectively as possible. To protect the anonymity of the clients, names of firms and individuals have been changed and financial statements altered.

Six of the seven clients were located in the inner city of a large metropolitan area. In their immediate market area, incomes were low, unemployment was high, residential and commercial property was deteriorating, and the atmosphere was tense. Approximately 60 percent of the inner city population was black, but business was primarily controlled by whites.

The student consultants faced a wide variety of challenges and encountered many different problems. The spectrum of their experiences is detailed in the case histories that follow.

LINDA JONES PROFESSIONAL TRAINING SCHOOL

We were introduced to Mrs. Linda Jones by the University Extension group we visited during the planning stages of our program, before the course became a reality. Mrs. Jones, the wife of an electrician, had been offering evening courses for ghetto black students on a part-time basis for several years before deciding to resign her regular job in a woman's clothing store to develop the school as a full-time activity.

A Beginning

As a first step, she obtained a lease on the third floor of a downtown warehouse. Rent was exceptionally low and after considerable personal effort and investment, she decorated her space in a manner that was consistent with her objectives. For $200 each month, she had the use of 5,000 square feet subdivided into classrooms and offices. Next, she expanded her course offerings to attract various age groups. As her volume of student traffic grew, she hired additional staff. She soon began to encounter business difficulties, however. She lost money on a side venture involving the sale of women's clothing, or at least she felt that she had suffered a loss. Her creditors began pushing for collection and she was unable to pay them. We were told that all we needed to do was to establish an effective records system fcr her.

On this premise, we made an appointment with Mrs. Jones. She turned out to be an attractive, charming, and hardworking woman, who appeared to have the potential for success. Her school had recently won an award as the outstanding black school of its kind in the country and she seemed to be off to a good start. We agreed to help her set up a bookkeeping system.

The Problem

On our next visit, we found the situation was worse than we had imagined. Basic financial information had not been kept, although she had obtained the services of a bookkeeping company. It was difficult to communicate with her; she didn't seem to understand our questions. We decided to begin with the basics. We began to build an estimated profit and loss statement, at times accepting her estimates of expenses. It soon became clear that she had no sense of "money." Her payroll alone substantially exceeded her revenues and in addition she had made some unnecessary purchases of capital equipment that she was unable to pay for. Her student volume was inadequate and she was collecting only a small portion of the sales she made. With monthly collections of approximately $1500, she had accounts receivable of more than $16,000, many of which were uncollectable. Her students, most from low income families, missed payments when other expenses competed for their funds. Many students signed contracts for courses, but dropped out because they could not pay. Mrs. Jones did not press these students for payment.

From several sources, we determined that her product was good. She offered

an exceptional training program and she was an outstanding instructor. However, few of her students could afford the expense of her course work. Realizing this, she had independently tried to obtain some contracts for training workers for corporations and government agencies. This volume helped, but was not adequate to ensure her survival. An abbreviated financial statement based on our estimates is presented below:

LINDA JONES SCHOOL
Monthly Profit and Loss Statement

Estimated Revenues		
Student Contracts	$ 400	
Business and Government Contracts	1,200	
		$1,600
Estimated Expenses		
Rent	200	
Utilities, Telephone	150	
Supplies, Postage, Misc.	350	
Entertainment	50	
Depreciation	100	
Salaries and Wages	2,400	
		3,250
NET LOSS		(1,650)

Although Mrs. Jones needed to reduce expenses immediately – this was done by cutting down on telephone, office supplies, and payroll – her basic problem was sales. She made no coordinated or consistent effort to attract individual or group business. With her existing physical facilities and staff, she had the capacity of earning almost $30,000 per month. We recommended that she broaden her course offerings to attract more students, reduce the fixed salaries of the retained staff and pay a healthy commission for new contracts, look into the possibility of expanding revenues by acting as an employment agency for her graduates, and develop an aggressive promotional program. She appeared enthusiastic and agreed to act on our suggestions.

Some Improvements

By late spring, the situation had improved, although it was still precarious. Her office manager was keeping a usable set of books. The operating expenses had been cut substantially (primarily by reducing the payroll) and her monthly loss decreased. She had made arrangements for a finance company to provide loans to her students and she had obtained some additional contract business. However, the basic problem of inadequate revenues had not altered. And her creditors were threatening legal action. She told us she had been approached about the possibility of merging with an established white business, but that she hadn't even wanted to discuss it.

From our viewpoint, our trial case was proving to be a disappointment. Mrs. Jones, although she always was appreciative of the time we spent with her, did not tell us about many important facets of her business until inadvertently forced to do so. She did not follow through on some of the basic changes that were needed. We felt guilty, because in our volunteer situation — all of our time was extracurricular — we did not have enough time to help her accomplish changes on a step-by-step basis.

Summary and Evaluation

In retrospect, we can identify some of the reasons why we hadn't been more successful. Mrs. Jones, while effective in teaching and public relations roles, had virtually no preparation for her busines difficulties. She didn't read our reports, because she did not realize how important they were to her. She also had a motivational conflict. Her primary interest in her business was not financial; she enjoyed the prestige of her position as an independent businesswoman in a community of both blacks and whites. Only when she discovered that she might lose her business did she begin to worry about profit and loss.

We had been too slow to realize that we weren't effectively communicating with her. As novice consultants, we had been pleased that we had been able to identify many of her problems and recommend solutions; we had overlooked the importance of helping the client to implement the proposed changes in the business.

We submitted a final report to Mrs. Jones in which we suggested that she institute a crash marketing program, incorporating several specific ideas that we developed, and if the market response was poor, she should then try to merge with another business that could provide the needed management expertise. Other businessmen in the community were working with her and we left with the hope that her business would improve.

CENTRAL CITY SUPERMARKET

Following a lead from the Urban League, Professor Strang and his project assistant met with Bob Edwards, owner-manager of the Central City Supermarket. The explained the purpose of the program to him and Edwards said he was willing to participate in the program although he was not overly eager. He did mention that he thought the program would present an excellent learning experience for a student team; he was willing to teach the students as much as he could about the grocery business. Although the team did not obtain detailed background financial information about the store, there was evidence it had solid growth potential, although problem areas existed.

The Business

The Central City Supermarket, a medium-sized market with annual sales of $450,000, depended primarily on neighborhood traffic. Although it maintained full-line grocery, produce and meat departments, brand variety was limited to approximately 4,500 items. It was a member of a highly successful regional buying cooperative which distributed its own brand as well as national brand items.

The store, on a main thoroughfare, provided a convenient location for neighborhood shoppers. The clientele was 90-95 percent black and was drawn primarily from a two-block radius of the store. There were no major competitors within a six-block radius, although there were several other small independent grocers. Three national chain supermarkets were located within a ten-block radius of the store; all three catered to inner city consumers with large produce departments featuring greens and soul food sections. A fourth chain store had recently closed, because of heavy inventory losses and increased overhead expenses.

Selling area in the store was limited to 2,500 square feet with 1,000 square feet of stockroom space. Normal hours of operation were 8 a.m. to 7 p.m. Monday through Saturday and 8 a.m. to 2 p.m. Sunday. Check-cashing and money order facilities were available for customers, but little or no credit was offered. Although the store maintained a delivery truck, no attempt was made to advertise this service.

In 1968 the store was bought by a group of Central City businessmen. The previous owner had built up a loyal clientele and enjoyed annual sales of over $500,000. The new owners brought in a former assistant manager of a national chain store to manage the store. A large advertising campaign was initiated stressing black ownership, although for the most part store appearance and merchandising remained the same. Bob Edwards, the new manager, was given a free hand; the corporate owners provided the capital.

During the first year of operation, Central City's sales declined steadily, employee turnover was high, profits decreased sharply, and buying flexibility suffered from lack of working capital. This was the situation the student team faced when it first met with Edwards in October. It was the team members' understanding that Edwards was owner-manager of the market.

Initially the team members spent much of their time in the store obvserving operational procedures, acquainting themselves with the grocery business, and building rapport with Edwards. He appeared to be very cooperative. The team asked Edwards to outline the objectives he had established for the store, its problem areas, and those areas in which he wanted the team to concentrate. He apparently had not put much thought into store objectives — his only concrete goal was to regain lost sales. Edwards seemed more interested in gross sales than net profit; he did not like to spend much time around the store; and rarely did he take his suit coat off to help out in the operation of the business. He appeared to enjoy his status as an entrepreneur within the black community, and the team felt this was his primary motivation for becoming involved in the business venture.

To gain a more complete picture of the store's financial situation, the team asked Edwards for the store's financial statements. Edwards promised to show them a quarterly statement when his accountant completed it, but he was more interested in the team concentrating on the problem areas he designated. This set the stage for the relationship between Edwards and the team. He outlined the problem areas and the priorities, as if he were the teacher and the team were his students.

Problem Areas

The Stockroom. Edwards really didn't know what merchandise he had in stock. He asked the team to develop a plan for reorganizing the stockroom. Several items were heavily stockpiled with shipping dates two to 18 months old. Many other items had several dates, indicating over-stock and the lack of a consistent rotation procedure. As an example, there were 12 bags of sugar with three different shipping dates. The fact that he only moved three bags a week meant $85 tied up in merchandise. Edwards explained that he got special buys on goods. The lack of consistent stock rotation was blamed on the stock boys.

There was also a large number of damaged products which apparently had been accumulating for months. The team suggested that the damaged goods be written out of the inventory and an attempt made to contact company sales representatives to get credit for them. The damaged goods were thrown out.

The team drew a floor plan of the selling area, which identified product line location on each shelf. A similar plan was made of the stockroom so that each bay contained merchandise from a corresponding aisle on the selling floor. Edwards liked the preliminary plan and asked the team to go ahead with the reorganization. The stock boys were to clean out the stockroom as much as possible to simplify rearranging it to fit the plan. Before the team arrived for its work day, Edwards cleaned and rearranged the stockroom according to his own plan. Although disappointed, the team was glad to see that Edwards was motivated enough to do the work himself.

It soon became apparent that the plan was not being adhered to and the stockroom assumed its former state of inefficiency. As a means of follow-up, the team drew a schema of the system Edwards had set up, with some modifi-

cations, and posted it in the stockroom for the stock personnel to refer to when stocking new merchandise and re-stocking the floor merchandise. However, it was never used effectively.

Ordering Procedure. The ordering procedure aggravated the stock problem. Only floor stock was inventoried prior to submitting the weekly order. This lead to an overflow of goods in the stockroom; old stock was pushed to the rear of the bays. The team suggested guidelines for rotating merchandise, designating bays, and taking weekly inventories of all stock. Although Edwards agreed the suggestions were valid, he was unwilling to initiate corrective action.

Edwards also found he was frequently out of stock on fast moving items. This further substantiated the ineffectiveness of his ordering procedure. Examination of past order books showed that due to changes, cross-outs, and additions, it was impossible to determine an accurate count of how much of a particular product had moved during a specific period. The team designed a simple form, to be kept at the check-out counter, in which all stock-outs, noted by customers or store personnel, would be entered daily, to be checked and initialed by Edwards at the end of each day. Edwards doubted that entries would be made regularly. He never used the form.

Edwards' lack of motivation was a major problem. It was a factor in the many operational problems which plagued the Central City Supermarket. Although Edwards was intelligent and knowledgeable about the grocery business, he was not motivated to carry out the daily functions of a grocer. He lacked basic management qualities which resulted in unhappy and ineffective personnel, a sloppy store appearance, poor merchandising, and the like. Personnel were never told explicitly about policy changes until they made mistakes. They received little or no direction from Edwards and had no pride in the store. Edwards would often leave for the afternoon without putting anyone in charge or leaving instructions for various tasks to be accomplished.

Merchandising. The team recognized a need to improve the merchandising techniques. Over-stock shelves resulted in a messy appearance and damaged containers. Edwards recognized this problem and explained that due to rapid employee turnover, the inexperienced stock boys just didn't know how to stock properly. The team suggested that the personnel needed more training. Team members suggested writing up a concise outline of job descriptions and operating procedures for stocking, pricing, cleaning, and the like. Edwards felt this would be busy work and none of his personnel would take the time to read such a manual. He also said his buying group supplied such manuals and that they were somewhere in his office.

Besides being overstocked, many sections were so disorganized it was difficult to find specific brands. In the cereal section, he had four facings, nearly 30 boxes, of Post's Bran and Prune which showed manufacturer code dates of 1967-68. However, he was missing cereals which A. C. Nielson and SAMI reports showed as having adequate shares of market. The team suggested setting up a schedule for the re-setting of selected sections. Edwards agreed to arrange the dates with the various sales representatives. After two weeks of inaction, one of the team members contacted a local sales representative and arranged for him to come the following week. Edwards was notified and agreed to work with the salesman. On the

scheduled day, the team called the store to confirm the re-setting. They were told Edwards had left for the day. Not wanting to take the responsibility for re-setting a section without Edwards' approval, the team told the sales representative not to come in.

Pricing. Edwards identified pricing as a problem area. Due to incorrect prices marked on goods, he was losing considerable profit. Apparently stock boys misread invoice prices and were prone to transpose digits when marking. Price changes were not entered in the order book so there was no ultimate authority for correct prices, other than Edwards' own memory. He requested that the team take his price book and check it against prices on the floor. A check of one aisle confirmed the problem. A 79-cent bottle of syrup marked 97 cents was not moving at all. On the other hand, only two cans of Crisco market 38 cents instead of 83 cents remained on the shelf.

In this particular case, the team felt that since Edwards recognized the problem as well as the solution, this was an area in which they should not concern themselves. It was a matter of telling a stock boy to check the prices in the order book against floor prices and make the proper changes. With respect to the cause of the mismarking, the team once again suggested that in some cases stock boys didn't know the correct procedures and needed guidance, through more effective training and supervision. In regard to noting price changes, the team suggested that Edwards' assistant be held responsible for checking invoice unit prices with the book price and making corrections in the book so that it could be used by stock boys. To the team's knowledge, this system was never used.

To determine whether Central City's prices were competitive, the team conducted a price survey at two of the national chain stores in the area. They found Edwards' prices competitive. Edwards told the team his buying cooperative supplied him with a weekly price survey of 50 selected items in seven metropolitan stores. It was at this point that the team realized that Edwards was not completely open with them. A cat-mouse relationship developed between Edwards and the team. If any member of the team showed knowledge of some aspect of the grocery business, perhaps related to a specific problem in the store, Edwards responded with a question he knew the team couldn't answer. The team decided Edwards was overwhelmed facing all three members at once and thereafter planned it so that he spoke to only one at a time. Although ostensibly the personal relationship with Edwards was an amiable one, this silent discord was never broken down.

Allocation of Shelf Space. The team attempted to analyze the optimal allocation of shelf space for product lines and specific products. As an example, a Coke machine, usually inoperable, took up valuable space in a high traffic spot in front of the check-out counters. The team learned that when operating effectively, the machine turned less than a 15 percent gross margin. At the team's suggestion, Edwards replaced the machine with shelving. He stocked it with high gross, non food impulse and household items, and subsequently the volume of selected items nearly doubled. The team began to realize that simple suggestions made more of an impact on Edwards than reports, elaborate guidelines and the like.

Customer Service. After several frustrating months for the team, Edwards expressed an interest in gathering information from his customers about their shopping habits, likes and dislikes, and so forth. The team members were glad to accept the project; they hoped it would make Edwards more enthusiastic about the business. They wrote a survey proposal, presented it to Edwards, and then using his suggestions, re-worked it. Edwards was very cooperative and offered valid suggestions with regard to question design. The team designed a short questionnaire and had 500 printed. These were given to Edwards with detailed instructions on how they should be distributed and collected. If the questionnaires could be distributed randomly throughout the neighborhood, Edwards could get a fairly representative sample of his customers' attitudes toward the store, its personnel, products and services.

The team knew the more Edwards was involved, the more benefit he would derive from the survey. However, he did not follow instructions, but simply handed questionnaires out to customers in the store. Nevertheless, even with a biased and low response rate, some useful data was obtained. Customers expressed concern for cleanliness and good service, both of which needed improvement according to 15 percent of the respondents. Fifty percent of the respondents reported they did not know Edwards personally. The team pointed out to Edwards that a neighborhood store had to project a friendly personality to keep loyal customers. The finding suggested that Edwards should spend more time in the store getting to know his customers.

The team wanted to initiate the changes suggested by the survey to show the customers that Edwards was interested in serving them. Edwards soon lost his initial enthusiasm, however, and put off the plans for change.

A Final Effort

The team decided to confront Edwards in an effort to re-define their purpose in helping him. They prepared a progress report, noting problem areas identified, suggestions made, and the inaction on Edwards' part. One member presented the team's position and also asked Edwards for an evaluation of the team's efforts. Edwards said he was grateful for what the team had done and realized that he had not fully cooperated. He said he would try to institute the various changes they had suggested.

The team also asked again about financial statements. They had seen none, although Edwards had promised the latest quarterly statement would be available for them to see when completed. This time Edwards showed them the latest financial statement, stressing the confidentiality of it and the fact that allowing them to see such information showed real cooperation on his part. However, when the team members asked to meet with the accountants to discuss the statements in detail, they were told it was not possible at the time.

The team decided to make one last attempt to provide Edwards with something more tangible with which to build his own enthusiasm and motivation. They told him that they would write a preliminary proposal for a total promotional campaign for the store, built in part around the results

of the survey. Edwards was quite receptive since the recent financial statements showed that sales for the year were down $65,000 and his net operating loss was appromimately $5,000. The team met first with the advertising executive who had helped Edwards with his "Grand Opening" campaign. The brainstorming session resulted in many possibilities for the "Operation Turnaround" campaign. These were incorporated into a proposal which outlined the overall objectives of the campaign, budget constraints, a number of promotional gimmicks, and the problem areas which needed to be corrected. Prior to moving ahead with any promotional effort, Edwards had to correct pricing discrepancies, generally "house clean," re-set all of shelves and the like.

Edwards seemed very enthusiastic. He was especially interested in the possibilities of outdoor advertising, point of purchase displays and the use of celebrities.

With only the preliminary proposal written, however, Edwards suffered a severe setback. He was in considerable financial difficulty and his buying cooperative withdrew its line of credit. Edwards was forced to make all of his purchases from the cash and carry warehouse. Central City would not continue to operate this way, since gross margin was cut by 5-8 percent due to the odd lot purchases. Edwards used the written proposal for the promotional campaign to present his case to the cooperative and to the corporation which owned Central City. He felt that with the injection of more capital, the re-establishment of a line of credit from the cooperative, and the inception of the team's proposed "Turnaround" campaign, he could succeed.

It was during these proceedings that the team learned Edwards was not the owner of the store, that he had none of his own money in the venture. He told the team at their last meeting to hold off on the promotional campaign. He could not explain all of the difficulties but was hopeful they would be straightened out. When the team came to the store the following week, Edwards had been replaced by a new manager. They learned that the corporation which controlled Central City had known nothing of the student team helping Edwards. Thus, rather abruptly and with a great deal left unexplained, the team's relationship with Edwards came to an end.

Lessons Learned

Although on the surface the team's experience was a dismal failure, some vaulable lessons were learned. First, the team members had not investigated Edwards' relationship with the store and the corporation as they should have. In retrospect, the fact that Edwards had no money invested in the venture explained in part his lack of enthusiasm for the business.

Too, although they were only students, the team members should have more clearly defined from the beginning what their purpose was in extending consulting help to Edwards. Simultaneously, they should have persuaded him of the importance of analyzing financial statements to get a more accurate picture of the store's overall situation. The team members failed to establish an initial confidence between themselves and their clients so that information would flow freely from both sides.

Finally, Edwards' inability to manage his store efficiently pointed up a most delicate problem in consultant/client relationships. How was the team to explain to Edwards that he was the cause of many of the store's problems? Although they never did confront Edwards with an analysis of his managerial shortcomings, the team members tried to find means of approaching the subject without alienating him. Unfortunately, he did not respond positively to these attempts.

RELIABLE TELEVISION SALES AND SERVICE

Reliable Television Sales and Service is a small television repair business. The owner-manager, Charles Davis, a 35-year old black businessman, learned electronics in the Army. A car record player he designed prompted a franchise offer from RCA in 1958, but Davis never acted on the matter. In 1962, he went into partnership with another technician to establish what is now Reliable Television Sales and Service. Each invested $500 and eventually built a volume of approximately $65,000 of repair work per year. However, the company suffered substantial inventory losses (thefts) in 1964 which were not covered by insurance and net loss that year was $13,000. Davis' partner then left the company; Davis kept the business and its debts, but had paid off all existing liabilities by 1966.

Reliable was incorporated in 1965. With a fully equipped service department, it soon obtained f. hises from RCA and Philco.

Most sales are generated through repair work. Approximately 50 percent of the repairs are made in homes and the remainder in the shop. Other revenues are collected by selling used and new television sets. On occasion, Davis bids and gets appliance sales.

Organization and Management

Reliable's organizational structure is typical of most small businesses. Davis is the policymaker and manager, and all operations center around him. From September through December, 1969, Davis employed an assistant manager to oversee shop activities and personnel. Four technicians were steadily employed; this number sometimes increased to ten men. The service manager, however, left the company in January 1970, and at times only one service operator was on duty.

Davis employs a full-time secretary-receptionist who greets customers and handles all phone calls and routine paper work. She is well versed in all nontechnical operations.

Client Relations

We were very impressed by Davis during our first few meetings. He appeared to have a good grasp of basic theoretical business principles, and extraordinary practical savvy. He was very knowledgeable about the television repair business. Davis seemed able to immediately answer any question we had about his business, its market, its competition and internal structure. His answers were, upon request, accompanied by consistent sets of facts and figures from his head. His major complaint was that he did not have enough time to do all that had to be done.

We tentatively concluded that he was much more sophisticated than we had been prepared to expect. Our impression was marred only by the uninspiring appearance of the shop, and the lack of any noticeable operating procedures and organization. The inside of the building had a half-finished look to it. Some wall and partition construction had been abandoned prior to completion.

Business Problems

Accounting. No financial statements had been prepared for the company since 1967. In addition, no income tax returns had been filed or bookkeeping entries made since that year.

The Arthur Andersen Company donated its services to set up a bookkeeping system. The firm's secretary was taught how to use the system and worked until January 1970, combing old receipts and bills to bring the entries up to date.

Arthur Andersen than took the books and, with consultation from Davis, compiled financial statements. Reliable's income statements and balance sheets are shown in Tables 1 and 2.

Past due debt has plagued Reliable. Davis still owes some $4,000 to banks, $6,000 to RCA and $8,000 to his suppliers. None of these parties has taken action to collect. The bank debt and the magnitude of the supplier debt are not reflected in the financial statements, and were not revealed to the consulting team until May 1970.

Table 1

RELIABLE TELEVISION SALES AND SERVICE
INCOME STATEMENT*
(For Year Ended December 31, 1968)

	1968	1969
SALES	$69,000	$50,000
EXPENSES		
Depreciation	3,500	3,500
Merchandise	12,000	14,000
Repair and Maintenance	800	1,500
Auto Expense	1,650	1,600
Utilities	3,100	4,000
Interest	200	600
Payroll	8,800	10,900
Taxes and Licenses	2,200	3,500
Advertising	2,700	250
Property Tax and Insurance	4,000	3,700
Other Insurance	1,800	2,000
TV and Appliances	24,200	3,600
Miscellaneous Expenses	900	2,350
TOTAL EXPENSES	$65,850	$51,500
NET INCOME	3,150	(1,500)
Less: Withdrawals	(3,850)	(2,500)
CHANGE IN OWNER EQUITY	($ 700)	($ 4,000)

*Prepared from books without audit.

Table 2

RELIABLE TELEVISION SALES AND SERVICE
BALANCE SHEETS
(December 1968 and 1969)

		1968		1969
CURRENT ASSETS				
Cash		$ 9,000		$ 3,000
Notes Receivable		2,000		2,000
Accounts Receivable		1,200		2,800
Inventory		6,500		6,100
Total Current Assets		18,700		14,900
FIXED ASSETS				
Building	$20,000		$20,000	
Depreciation	1,000	19,000	2,000	18,000
Equipment	12,000		13,000	
Depreciation	3,000	9,000	6,200	6,800
Land		5,000		5,000
Total Fixed Assets		33,000		29,800
TOTAL ASSETS		51,700		44,700
CURRENT LIABILITIES				
Accounts Payable		7,000		5,500
Notes Payable		6,000		5,000
Total Current Liabilities		13,000		10,500
LONG–TERM LIABILITIES				
Mortgage		21,000		20,000
TOTAL LIABILITIES		34,000		30,500
EQUITY		$17,700		$14,200

Marketing. The firm's marketing structure is basically divided into four major areas. These are product, price, buying and promotion.

Reliable uses four "product types" to generate sales: repair service, used TV sales, new TV sales and appliance contract business. The TV repair service business has generated nearly 100 percent of the firm's total sales volume. Most of this business is unsclicited and is initiated by telephone calls. After a call has been received and processed, a service technician is dispatched to the residence.

If possible, the set is repaired in the home. Otherwise, it is brought to the shop, repaired, and either delivered or picked up by the customer. The service business is Reliable's strength.

The sale of used TV sets comprises less than one percent of the firm's sales volume. These sales are rather sporadic. On occasion Davis buys a used set or repairs an older one. These are displayed to customers in his showroom and sold. Sales of new television sets amount to three or four sets per year. One of Davis' objectives for 1970 was to expand these sales by opening a remodeled salesroom. The product mix would contain: low cost stereos, low cost black and white televisions, low cost, table-model color televisions, low cost consoles, AM-FM radios, pocket transistor radios, and AM-FM pocket radios. With a traget market of both black and white clientele in the lower income brackets, Davis estimated a sales potential of five or six sets per week.

To date, the contract business has been limited. In 1969, Davis received a request to bid on appliances for an apartment complex. The bid was successful and approximately 200 units were dropshipped to the proper location.

Reliable uses a flexible discount pricing system. The manager, assistant manager, and secretary have the authority to perform this function. Customers are treated on an individual basis. The major criteria used in price determination are the volume of business generated on each sale and customer loyalty. Additionally, labor rates suggested by manufacturers and industry standards are considered. Parts prices are pre-set.

Buying is done on a day-by-day basis. A model inventory of the "most-used parts" is stocked on an informal basis. Davis makes up the orders and either sends a repairman to pick up the parts or has them delivered. Reliable has limited promotion. Davis subscribes to classified advertising in the yellow pages, and puts an occasional ad in the inner city newspaper.

Inventory Control. The first project undertaken involved the development and implementation of a repair parts inventory control system. We settled on this as a first job, since it appeared to satisfy two primary objectives: (1) we wanted to demonstrate our technical competence to Davis as quickly as possible, (2) a good system would be an invaluable addition to the business. In addition, Davis expressed a desire for better inventory control and had told us of plans for moving into a second repair facility.

We developed a system which was designed to control loss due to theft, optimize inventory investment, and routinize control procedures. The team presented the proposal to Davis, allowed him a week to evaluate it and returned to discuss implementation. His response was disappointing. Most disturbing was the fact (he did not admit to this) that he had not even read the report. He said he had been so busy there had not been time to implement a system. We mistook this reaction as a cue to aid vigorously in implementation, but soon found it to be merely the first in a long line of "reasons" why nothing could be done.

New Ventures

Our continuing discussions with Davis revealed that he had a strong interest in getting into other businesses. He was considering burglar alarm installation and maintenance, retail television and radio sales, and elec-

tronic parts distribution. We decided to help Davis investigate these alternatives for several reasons. We saw two majr eas in which our knowledge could be used. First, was in the area of new ventures. Second was the entire matter of Reliable's internal control. The inventory problem was a small manifestation of that lack of control and we had been unable to institute any inventory system. In addition, our time was limited, and we wanted to make a significant contribution to the business. We reasoned that since the repair operation was doing well (according to Davis), his primary interest lay in new ventures.

Burglar Alarms. To investigate the possibility of burglar alarm installation and maintenance, we developed a simple, venture-evaluation form and presented it to Davis. He was only midly impressed with the financial analysis. However, he had neglected certain sizable out-of-pocket costs and refused to recognize them. Nothing came of the entire affair.

Sales. Between Christmas and semester break, we began work on an electronics parts distributorship. Initial efforts were aimed at wholesaling vacuum tubes only, based on Davis' estimate of the sales he could make to other black-owned shops. The low profit margin on vacuum tubes alone and the reluctance of the major tube manufacturers to supply such a business shifted our efforts to development of a full-line distributorship. The market for, and profit potential of a well-run, full-line distributor in the inner city was quite good, based on our own projections as well as those of Davis.

We held meetings with General Electric, Sylvania and RCA about the distributorship. All seemed interested. GE and RCA followed up with general information packets about distributorships, and GE indicated strong interest in franchising Davis, pending a review of projections, financing and past business history.

We prepared pro-formas for a suitable distributorship, reviewed operating ratios and methods of typical operations, and presented this information to Davis over a number of meetings. He lightly dismissed the findings as not being at all indicative of what he could do, yet offered no explanation as to why he would be so much different from other distributors. Further, he failed, or refused, to recognize the operating differences between a distributorship and a TV-radio sales outlet.

We were certainly not opposed to an optimistic outlook on Davis' part, but were quite disturbed at his refusal to accept and evaluate the historical record. Further, he was not at all interested in setting down preliminary operating procedures for his proposed business. We made the following suggestions: (1) Take purchase pledges from the potential market to demonstrate the success potential to financiers, (2) Consult your lawyer and form a corporation to run the distributorship (required by the manufacturers), (3) Scout around in search of financiers; talk to bankers, and (4) Relocate the repair operation in the basement to make room for the sales area. We received no response

Summary and Evaluation

In retrospect, Davis was not nearly as sophisticated as we first imagined. He had developed the business rhetoric, but did not understand business. He appeared to be looking for a get-rich-quick scheme. He has very little commitment to successful business operation. He doesn't see digging in and building up Reliable as a possible route to satisfying some of his personal goals. He maintains the business as a base of operations and a place to go during the day.

We can only speculate on how or why his attitudes developed as they did. We suspect that such feelings occur throughout small business, but that they may be more prevalent among black businessmen, especially in Davis' and older generations. Business, large or small, in America, is an instrument of the white sector. Historically, black businesses have been allowed to exist. They have been at the mercy of the power structure and too many have been mercilessly and irrationally struck down (or failed because operators were systematically denied access to information). Davis and others like him have seen and been caught in such occurrences. Given this background, it is not difficult to see why these men might keep "their" business at arm's length from their personal goals, for protection. With the experience of living in an unstable environment, Davis understandably was reluctant to commit himself to such efforts as planning and organizing. He ran his business on a day-to-day basis, reacting rather than attempting to control.

We don't see Reliable heading in any particular direction in the near future; neither bankruptcy nor prosperity are on the immediate horizon for the business. It most certainly could not be called a success now.

It would require a major change in Davis' attitude toward the business and its function to alter its course. There needs to be a genuine commitment on Davis' part to build a successful business. He will have to focus his imagination and drive on Reliable, full time, rather than simply maintaining the firm as a base for outside activities.

QUALITY PRINTERS, INC.

Quality Printers, Inc., a small printing and letter shop, began operations in 1960 as a secretarial service in the basement of the owner's home. It served businesses and individuals in the surrounding area. Eventually, mailing and printing services were added.

Management Organization

The firm is owned and operated by Mr. and Mrs. David Jefferson, 35. Jefferson, a high school graduate, works full time in a manufacturing plant. He has no formal training, but has developed considerable expertise as a press operator. Mrs. Jefferson, a college graduate with a B. S. in mathematics and an M. A. in music, does all the typing and mailing for the business. She supervises all employees and serves as the firm's receptionist-secretary as well. Quality employs one woman full time and one woman on a part-time basis when needed.

Quality was established as a partnership, but was incorporated in 1965. The Jeffersons own all of the common stock, of which $500 is outstanding. There is no board of directors. The firm uses a bookkeeping service for accounting and tax advice.

Client Relations

We were assigned to work with Quality Printers in September, 1969. As a prerequisite to meeting our clients, we sought to learn something about the printing industry. Our research included reading trade journals and visiting local printing firms. We discussed size and turnover of inventory, advertising techniques, industry averages and ratios, pricing problems and policies, credit policies, depreciation methods, and desirable cost accounting systems with successful printers.

We also developed some ground rules for our team before contacting the firm to eliminate any conflicts that could arise because of the manner in which we conducted ourselves. It was of prime importance to use an approach that would gain our clients' confidence. The rules included:

1. Although the black member of the team (there were two members) was to act as the lead-in for the first introduction, he was not to be the spokesman on all occasions. Both members were to speak for the team as a whole.

2. Any attempt by the client to deal with only one member of the team would not be tolerated.

3. All major decisions were to be discussed in detail by the team prior to presenting the results to the client.

4. The agenda for each visit would be planned in advance.

On our first visit, we were interested in establishing a working relationship with the Jeffersons and gaining an overall view of the firm. We explained our position as advisers and assured them thay any information we obtained would be held confidential. We asked the Jefferson's to point out areas in which we might be of assistance, and stressed the fact that disclosure of all pertinent data was essential for our work to be meaningful.

Our next few visits were to collect data. Our relationship with the Jeffersons during this period could best be described as cautious. They provided information only when we requested it. On our fourth visit, however, they began to volunteer information; a certain rapport was established.

After the first few visits, we seemed to be working primarily with Mrs. Jefferson; her husband was not in attendance during most of our visits and showed little interest in what we were doing. We made a sincere effort to involve him in our work. The result was favorable; he responded by offering further information about the firm and about what he regarded as its primary problems and goals.

Financial Analysis

We conducted an intensive review of the firm's financial statements for the past three years.

As indicated in Tables 1, 2, 3 and 4, Quality showed an operating profit for the past three years. However, the Jeffersons did not pay themselves a salary during this period, so the profitability of the firm is somewhat overstated. Analysis of the data in Table 5 shows that the firm's sales to net worth ratios approach the industry average; but they are disguised because of the high leverage used by the firm. The current ratio has improved but is still below the industry average. Approximately 98 percent of current assets are in the form of accounts receivable. In two of the past three years, the firm had deficit cash balances at the end of the year. Quality experienced some difficulty in collecting delinquent accounts and consequently changed its credit policies.

The firm is currently experiencing only minor difficulty and hopefully the amount of accounts receivable will reach a level equivalent to the industry average. The level of current liabilities is high because of a $2,500 note payable that perhaps should be classified as a long-term loan.

The company's main source of funds has been loans from the owners themselves, but additional funds have been borrowed from a bank. (The Jeffersons' house was mortgaged to obtain these additional funds.) Some of the equipment was purchased through installment contracts with the manufacturer. The firm has some form of credit at a local bank and is able to borrow short-term funds for material to be used in large jobs.

As evidenced by the sales to total asset ratio (Table 5), Quality is not using existing equipment to full potential. The assets represent sunk costs, and increased sales would produce a considerable profit for the firm.

Table 1

QUALITY PRINTERS, INC.
BALANCE SHEET
MARCH, 1967
(Prepared Without Audit)

ASSETS			
CURRENT ASSETS			
Cash in Bank — Overdraft		$ (50)	
Accounts Receivable		8,000	
Prepaid Expense		30	$ 7,800
FIXED ASSETS			
Equipment*		22,000	
Less: Allowance for Depreciation		5,000	17,000
OTHER ASSETS			
Organization Expense		150	
Deferred Finance Charge		350	
Security Deposit on Lease		600	1,100
TOTAL ASSETS			$25,900
LIABILITIES AND CAPITAL			
CURRENT LIABILITIES			
Note Payable — First National Bank		5,000	
Accounts Payable and Accrued Expenses		4,000	
Wages Payable		1,300	
Payroll Taxes Payable		100	
Loan Payable		500	
Conditional Sales Contract Payable		1,700	12,600
LONG-TERM LIABILITIES			
Loan Payable — David Jefferson		8,000	
Due to Deluxe Mailing Partnership		4,500	
Conditional Sales Contract Payable	$ 4,000		
Less: Current Installments	1,700	2,300	14,800
CAPITAL			
Capital Stock		500	
Retained Earnings — Deficit		(2,500)	
Net Income — 4/1/66 to 4/1/67		500	(1,500)
TOTAL LIABILITIES AND CAPITAL			$25,900

*The First National Bank has a security interest in all machinery and equipment owned or hereafter acquired by the corporation.

Table 2

QUALITY PRINTERS, INC.
BALANCE SHEET
MARCH, 1968

ASSETS			
CURRENT ASSETS			
Cash on Hand		$ 100	
Cash in Bank		200	
Accounts Receivable		2,000	$ 2,300
FIXED ASSETS			
Equipment – Printing		21,000	
Office		2,000	
		23,000	
Less: Reserve for Depreciation		7,000	16,000
OTHER ASSETS			
Organization Expense		100	
Security Deposit – Printing Equipment		600	
Deferred Finance Charges		200	900
TOTAL ASSETS			$19,200
LIABILITIES AND CAPITAL			
CURRENT LIABILITIES			
Accounts Payable – Accrued Expenses		1,000	
Payroll Taxes Payable		150	
Loan Payable		500	
Note Payable – First National Bank		2,500	
Current Installments on Long-Term Obligations		3,000	9,150
LONG-TERM LIABILITIES			
Loan Payable	$1,000		
Loan Payable	300		
Loan Payable	2,500		
	3,800		
Less: Current Installment	3,000	800	
Loan Payable – David Jefferson		6,350	
Due to Deluxe Mailing Partnership		1,000	8,050
CAPITAL			
Capital Stock		500	
Retained Earnings Deficit	(2,000)		
Net Income – 4/1/67 to 3/31/68	3,500	1,500	2,000
TOTAL LIABILITIES AND CAPITAL			$19,200

Table 3

QUALITY PRINTERS, INC.
BALANCE SHEET
MARCH, 1969

ASSETS			
CURRENT ASSETS			
Accounts Receivable		$ 6,000	
Loan Receivable		200	$ 6,200
FIXED ASSETS			
Equipment		28,000	
Office Equipment		2,000	
		30,000	
Less: Reserve for Depreciation		10,000	20,000
OTHER ASSETS			
Organization Expense		50	
Deferred Finance Charges		1,000	1,050
TOTAL ASSETS			$27,250
LIABILITIES AND CAPITAL			
CURRENT LIABILITIES			
Cash in Bank – Deficit		(200)	
Accounts Payable – Accrued Expenses		3,400	
Accounts Payable		200	
Payroll Taxes Payable		200	
Note Payable – First National Bank		2,500	6,100
LONG-TERM LIABILITIES			
Loans Payable		8,650	
Loan Payable – David Jefferson		5,000	
Due Deluxe Mailing Partnership		1,000	14,650
CAPITAL			
Capital Stock		500	
Retained Earnings	$ 1,500		
Net Income – 4/1/68 to 3/31/69	4,500	6,000	6,500
TOTAL LIABILITIES AND CAPITAL			$27,250

Table 4

QUALITY PRINTERS, INC.
PROFIT AND LOSS STATEMENTS
1967, 1968, 1969

	1967	1968	1969
INCOME	$20,000	$22,000	$32,000
PRODUCTION COSTS			
Salaries and Wages	3,500	1,000	6,800
Equipment Rental	4,000	200	50
Paper and Printing Supplies	4,500	6,800	6,500
Subcontracting	3,000	1,800	3,150
Depreciation	2,200	2,500	4,100
Payroll Taxes	100	100	300
Personal Property Taxes	500	700	800
Delivery Service	–	1,000	300
GROSS MARGIN	2,200	7,900	10,000
OPERATING EXPENSES			
Advertising	50	1,000	700
Freight	50	–	–
Interest	110	350	675
Legal and Accounting	200	450	450
Office Supplies	175	800	300
Repairs and Maintenance	210	530	800
Telephone	280	450	490
Utilities	300	200	250
Storage	135	–	–
Sundry	190	20	535
Insurance	–	100	150
Commissions	–	–	150
Lease Costs	–	–	1,000
NET PROFIT	$ 500	$ 4,000	$ 4,500

Table 5

FINANCIAL DATA – INDUSTRY COMPARISONS

RATIOS	1967	1968	1969	Industry
Sales to Net Worth	(13.30)	11.00	4.92	3.81
Current Ratio	.62	.25	1.02	2.40
Sales to Total Assets	.77	1.15	1.17	2.98
Net Profit to Sales	.03	.18	.14	.11
Collection Period (days)	130	20	68	52

COSTS AS A PERCENTAGE OF SALES (1969)	Quality	Industry
Materials	29.0	35.7
Labor	21.9	30.4
Factory	23.5	10.7
Administrative	6.7	6.6
Marketing	2.7	5.7

Marketing

The sales to assets ratio problem required immediate action. Our goal became one of increasing sales through developing and implementing a marketing strategy. We determined that the product mix consisted of 85 percent printing, 10 percent typing and 5 percent mailing. This led us to question whether the $10,000 automated mailing machine purchased in 1967 was a wise investment.

We developed a four-pronged marketing strategy: (1) a personal selling campaign, (2) direct mail advertising, (3) evaluation of pricing policies, and (4) the development of an estimating form to facilitate bidding.

Personal Selling Campaign. There was a noticeable lack of aggressive personal selling on the part of the owners. Some of the firm's clients were not aware of all of the services Quality offered. We decided to launch a personal selling campaign directed at commercial firms. Our analysis of this problem suggested the following possible methods:

1. Sending the Jeffersons to call on existing major accounts in an effort to expand them.
2. Sending the Jeffersons to call on prospective customers to develop new accounts.
3. Hiring a salesman to perform the functions suggested in 1 and 2.
4. Acting ourselves as temporary salesmen for the firm.

We decided to act as temporary salesmen because we wanted to prove to our clients that we possessed some talents that could be useful to them in realizing their stated objective of growth, and that we were willing to work toward that growth. In addition, the firm had no money to pay a salesman, so this alternative was quickly discarded. We further believed that production would suffer if the Jeffersons spent time away from the office.

The fact that we knew only a little about printing didn't trouble us. The Jeffersons could always call the prospective customer with the information. This would get owner and customer together. We believed that because we were students involved in a class project, it might be easier for us to meet customers. Finally, we wanted to obtain information about the market first hand.

Most of the customers we contacted thought the firm provided a quality product at a reasonable price. We were successful in obtaining additional sales but failed to motivate our clients to utilize personal selling on their own. This was our first major disappointment.

Direct Mail Advertising. The firm's principal medium of advertising was the mailing of monthly and annual calendars to selected firms and individuals. Little business was received from this method. During 1969, Quality had an advertising to sales ratio of 2.67 percent. The industry average for that year was 7.6 percent. Firms with 8 percent or more profit had a ratio of 5.7 percent.

We concluded that Quality was not making effective use of its advertising dollar. As an alternative we suggested a direct mailing approach to present customers and selected potential customers with a packet which would include a pictorial resume of Quality's capabilities, an appropriate sales pitch and two letters from satisfied customers. This mailing was never completed, however, because of our clients' lack of motivation. We recommended that promotional literature be prepared by an advertising agency in the future.

Evaluation of Pricing Policies. Initial conversations with customers suggested that Quality's prices were too low. However, the pricing survey we conducted indicated that prices were in the middle range of their competition.

Form to Facilitate Bidding. We noted that Quality used no formal system of computing cost and estimating prices. This made it difficult to develop consistent and profitable bids on jobs. We developed an estimating form which ensures that no essential costs are omitted and it serves as a permanent record of actual cost information. Unfortunately, the Jeffersons have been extremely reluctant to fully utilize the form.

We confronted the Jeffersons at the end of the first semester with our frustrations due to the inability to motivate them to take an active part in implementing the marketing strategies. They admitted they had been derelict. They developed a more professional attitude, although there were still problems in this area.

Internal Control

Internal control was a major problem at Quality Printing. We found inconsistencies in recording data in the ledger. Titles of columns changed frequently and entries in the journal were not posted regularly. Accordingly, we developed some meaningful and appropriate titles for columns. The accountant agreed to have someone in his office do the posting monthly.

Billing procedures were inadequate. Some customers were not billed for work completed. At our suggestion, a new procedure was begun. Now when a job comes in it is priced on the estimating form and placed in a notebook under a section titled "Work in Process." After the job is completed, the form is transferred to a section labeled "To Be Billed."

The full-time employee mails all bills on the 26th of each month. Once the bill is paid, it is then transferred to the customer's file. As simple as this procedure may sound, we had to constantly ask our client to use it even after she admitted that she sometimes forgot to bill customers for completed work. Her major problem was that she did not take the time to record each job as it came into the shop.

In addition, no records were available to indicate the profitability of the business on a monthly basis. To correct this deficiency, a monthly sales and expense budget was prepared. This budget facilitates a comparison of current budgeted and actual sales with last year's sales.

Finally, we felt too much time was spent during office hours conversing on the telephone and attending to nonbusiness activities. We recommended a more judicious use of management time.

Production

Labor costs for the firm were excessively high because Quality control was so stringent – a visual inspection was conducted of each page of bound material. We developed a statistical model based on the sampling principle which greatly decreased the time spent inspecting books.

Assets and equipment were being under-utilized. For example, the master mailer and the 350 press were taking up space without making a contribution to the business. We recommended immediate sale of the mailer regardless of whether a loss was sustained. We further suggested that the 350 be operated to facilitate production of short-run jobs.

Although this latter suggestion was not implemented immediately, we noticed that it had been adopted shortly after we terminated our relationship with Quality.

Production scheduling was poor, often resulting in a last-minute rush to meet deadlines. We discussed this with the Jeffersons on several occasions. We concluded that the proper filing of the estimating form was a first step in solving this problem.

Finance

No wages were being paid to the owners for their services which lead to an overstatement of the profitability of the firm. A monthly salary of $500 to the owners was added to the 1970 budget. Because this will reduce apparent profits, it may add incentive to increase volume.

An equity base of $500 is too small to provide sufficient working capital to operate the firm at its current level of business. We suggested that more equity be put into the business instead of using the present loan arrangement.

Summary and Evaluation

Time was a very definite problem for the Jeffersons. They explained that they did not implement many of our suggestions for improving their business operation because they never had time enough to handle even the day-to-day problems that occurred. But the effective allocation and delegation of jobs is essential to growth. We stressed the importance of managing a firm and delegating responsibilities when the work load becomes too much to handle. It appears that Mrs. Jefferson now realizes she can no longer do all of the jobs herself and is beginning to shift a portion of her work to her employees.

Mrs. Jefferson recognizes, too, that her inaction hampered the effectiveness of our work. One week we would feel we were making progress, the next we would be disappointed because none of our suggestions had been utilized. However, Mrs. Jefferson's attitude has changed considerably as the result of an increase in sales over the past year.

It is our opinion that Quality Printers, Inc., will experience a slow rate of growth in the future. We feel that the major obstacles hindering a rapid growth and increased profitability are lack of proper motivation and aggressiveness in operating the firm.

The firm consistently produces a good quality product at a reasonable price for its clients. Quality is proud of its personal relationships with its clients and as such has provided above average service. However, Quality depends upon a few major clients for the bulk of its sales volume and the management has not shown the desire and enthusiasm necessary to expand current operations. The apparent unwillingness to increase sales through personal contacts with current clients and prospective clients is a major drawback to expanding sales. The firm's printing and mailing equipment is not being used to its full capacity.

While the management has shown the ability to understand basic business principles, it is the lack of application of these principles that has contributed to the present status of the firm.

AMITY ALUMINUM PRODUCTS, INC.

Amity Aluminum Products, Inc., established in March 1969, manufactures two and three-track anodized aluminum screen and glass windows and anodized screen and glass doors. The firm rents a facility located on the fringe of the central city in a metropolitan area of approximately 300,000 persons. The city has a relatively small black population. Recently, management has also undertaken a drop-shipment arrangement to sell windows produced outside its own facility but carrying Amity's name. While almost exclusively a manufacturer, the firm also does some repair work.

Organization and Management

Amity Aluminum is a corporation with three principal shareholders. James Wright, 29, is president. A native of North Carolina, he has been a resident of the city 11 years. He has nine years of experience in the aluminum door and window industry. Wright is the chief operating officer of the firm and directs its daily activities. He also functions as the firm's chief salesman and is directly engaged in purchase and physical obtainment of supplies, delivery and installation of the product, supervision of production and administrative activities. Highly motivated and ambitious, he appears to have the necessary qualities to make Amity a success. He actively seeks advice and accepts criticism constructively; it appears he is willing to make the sacrifices and accept the risks that entrepreneurs must.

Vice-president of the firm is Robert Hunt, 29, a Cincinnati, Ohio schoolteacher. He plays no active role in Amity's operation. John Garrett, 35, is secretary-treasurer. He is employed full time as the building superintendent at the city's largest savings and loan association. He keeps the books for Amity and attends to other matters related to the accounting function such as sales records, bank reconciliations, and the like. Garrett is engaged in a number of civic and community activities; he is an alderman. The company also employs two full-time production workers and one part-time clerical assistant.

Amity has no formalized organizational structure. There are no job descriptions for any of the positions at the firm. It is primarily a one-man operation run by Wright with limited assistance from Garrett. This arrangement has one very distinct disadvantage — should Wright be incapacitated for any length of time, Amity Aluminum would go out of business. Unfortunately, little effort has been spent in establishing written procedures that would enable others to perform duties in the event of his absence. Wright has not delegated many responsibilities to his production workers. On several occasions we noted that the workers were idle. Garrett's administrative talents are vastly underutilized, as well, due to the limited time he devotes to the firm.

Client Relations

Initially, we examined all the functional areas of Amity's business to determine where problems existed and to establish priorities. We proposed solutions and then presented the problem and accompanying solutions to

our client. We were particularly interested in determining if Wright recognized his problem areas, and how he would respond to our recommendations.

Wright received some recommendations with enthusiasm and some with indifference. We did not force issues, but when a natural opportunity arose which was related to our recommendations, we suggested some action was necessary. We emphasized that our role as consultants was purely advisory and that we realized all decisions made were ones that the company had to live with.

We also sought opportunities to have outside experts comment on specific facets of the firm's operation. We encouraged these specialists to evaluate the suggestions the team had submitted. This course of attack was quite effective, adding to both our credibility and our confidence. Finally, in situations where circumstances permitted, we would vote on particular courses of action and ideas being considered. The consulting team members were allowed to have equal voice in these situations.

We were firmly convinced that this general approach will be effective in other consulting relationships. The "key idea" is to avoid challenging the client's authority, never show disappointment at the rejection of a recommendation, and look for natural opportunities to suggest courses of action. We established excellent rapport with our clients. Wright and Garrett were eager for advice and responded well to positive criticism. There were no major barriers to communication.

Problem Areas

Accounting. The first major problem confronting the consulting team was obtaining accurate accounting information. Although Wright and Garrett were very willing to open all company records to us and help us in any way possible, the financial records were incomplete and inaccurate. We discussed Amity's accounting problems with a member of the University of Wisconsin Graduate School of Business staff and with a local public accounting firm. Our primary concerns, in addition to the accuracy of the information, were in the areas of cost accounting standards and proper inventory controls.

The consulting team proposed that a local CPA firm be engaged. Amity accepted our proposal and contracted to have their statements prepared on a quarterly basis. The team also provided the firm with instructional materials to aid the officers in understanding the basic procedures and terms. Garrett and Wright instituted a monthly inventory system that appears quite adequate. The new accountant introduced a check reconciliation system and the clerical assistant is doing a capable job with the entries. The firm is still experiencing difficulty getting prompt accounting information from their accountant, but we are hopeful that this problem can be eliminated in the near future. Tables 1 and 2 present the firm's financial statement for a period of ten months ending December 31, 1969.

Table 1

AMITY ALUMINUM PRODUCTS, INC.
STATEMENT OF OPERATIONS (WITHOUT AUDIT)
(Period of Ten Months Ended December 31, 1969)

			Percentage of Sales
SALES		$32,000	100.0
COST OF SALES			
Beginning Inventory	$ –0–		
Purchases and Freight	17,000		
Productive Wages	10,000		
Ending Inventory	(1,000)		
Total Cost of Sales		26,000	81.3
GROSS PROFIT		$ 6,000	
OPERATING EXPENSES			
Administrative Wages	1,300		
Amortization	50		
Rent	1,200		
Office Supplies and Expense	250		
Legal and Accounting	275		
Insurance	400		
Advertising	20		
Automobile and Truck Expense	600		
Utilities	300		
Telephone	500		
Maintenance	75		
Sales Commissions	50		
Interest	200		
Depreciation	900		
Payroll Taxes	575		
Miscellaneous	300		
Employee Travel	250		
Total Operating Expenses		7,245	22.6
NET LOSS		($ 1,245)	(3.9)

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Amortization	50		
Rent	1,200		
Office Supplies and Expense	250		
Legal and Accounting	275		
Insurance	400		
Advertising	20		
Automobile and Truck Expense	600		
Utilities	300		
Telephone	500		
Maintenance	75		
Sales Commissions	50		
Interest	200		
Depreciation	900		
Payroll Taxes	575		
Miscellaneous	300		
Employee Travel	250		
Total Operating Expense		7,245	22.6
NET LOSS		($ 1,245)	(3.9)

Table 2

AMITY ALUMINUM PRODUCTS, INC.
STATEMENT OF FINANCIAL CONDITION (WITHOUT AUDIT)
(Period of Ten Months Ended December 31, 1969)

ASSETS			
CURRENT ASSETS			
Cash		$ 3,000	
Accounts Receivable		3,500	
Inventory		700	
Total Current Assets			$ 7,200
FIXED ASSETS			
Automobiles and Trucks		1,000	
Shop Equipment		7,500	
Office Equipment		600	
Total		9,100	
Less: Allowances for Depreciation		1,000	
Total Fixed Assets			8,100
OTHER ASSETS			
Goodwill		1,800	
Unamortized Organization Expense		200	
Total Other Assets			2,000
TOTAL ASSETS			$17,300
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Accounts Payable		2,600	
Payroll Taxes Payable		445	
Sales Tax Payable		200	
Note Payable – Current Portion		2,800	
Total Current Liabilities			6,000
LONG-TERM LIABILITIES			
Note Payable			4,000
Total Liabilities			10,000
SHAREHOLDERS' EQUITY			
Capital Stock Issued	$10,500		
Less: Treasury Stock	2,000	8,500	
Retained Earnings (Deficit)		(1,245)	
Total Shareholders' Equity			6,755
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			$17,300

Supply. Due to limited working capital, supply has been a continuing problem for Amity. It needs to maintain an adequate inventory and to be able to take advantage of economical order quantities, but this is currently a financial impossibility. Wright must drive 150 miles to purchase extruded aluminum, which is his firm's most important material input. He buys the aluminum on a cash basis. If his supplier does not have the special extrusions Amity needs, production must be halted until the materials can be obtained. This has happened on several occasions.

Amity has only one source of aluminum. Efforts to locate others have failed. The firm has tried two major metropolitan areas but no extruder has in stock the dies Amity requires. The alternatives are to have special dies made or to purchase in box car quantities. The cost of these alternatives are prohibitive in view of the firm's current working capital shortage.

The firm's second most critical supply input is glass. Here the firm has experienced some problems but not of the magnitude of the aluminum problem.

Production. We felt the production system used by the company was probably not as efficient as it could be. Therefore, we enlisted the help of a mechanical engineer to obtain some professional advice in the area of production management.

The engineer visited Amity's facilities, talked with Wright about the steps followed in production, and after carefully studying the situation, decided the firm's present arrangement, considering facility limitations, was probably the most efficient.

Wright and Garrett had been planning for some time to purchase a new double miter saw for use in the production of windows and doors. At our request, they delayed action on the purchase and obtained a report from an outside source concerning the models available to them, their individual advantages and disadvantages and maintenance.

It was estimated by management that use of a double miter would enable the firm to double its production within the same eight hours a day and labor constraints which it is now working under. This would mean production could increase from its present limit of approximately 125 windows and 20 doors a week to a possible 250 windows and 40 doors.

When such a move becomes necessary, Amity's management will be able to make an intelligent, quick decision as to which machine to purchase using the information it now has filed. At the present time, however, production is not at a high enough level to justify the purchase.

The appearance of the production facility and office was extremely unkept when we first arrived. We suggested to the management that this had a very negative impact on potential customers, and the owners immediately did an outstanding clean-up job. However, the appearance has gradually diminished. Employees have not been properly indoctrinated as to the importance of keeping the work area clean. We noted that an improved appearance on a continual basis would do much to project an image of professionalism to both the public and employees.

Marketing. When consulting began, there was no formalized marketing function at Amity. Products were sold at both wholesale and retail. Building contractors and remodelers comprised the wholesale trade. All other accounts were considered retail accounts and priced as such.

Advertising was limited to a few one-line cross listings in the Yellow Pages, a feature story in the business and financial section of the city newspaper, word-of-mouth communication by the general public and recommendations by competitors for non-standard (custom) window and door work.

The firm maintains a somewhat higher price on its products than leading competition. This is done for two reasons: (1) management considers its products to be of superior quality to any produced by competition, and (2) with production facilities located in the city, orders can normally be received and merchandise manufactured and delivered within one week. Competition usually requires approximately 21 days for the same service.

The firm's sales territory is fairly localized, within a radius of 40 miles of the city. Future plans, however, include expansion of this area with the possibility of entering the pre-fabricated homes industry.

Industry-wide sales of aluminum doors and windows are currently being distributed approximately 75 percent to remodeling of old buildings and 25 percent to new buildings. Amity's sales are fairly close to this average.

Although the firm's marketing was not aggressive in the early stages, management expressed a sincere desire to step up this effort in the future.

We began developing a marketing program in the spring, during the prime selling season. Our plan was to (1) contact, via mailers and personal sales calls, home remodelers, builders, hardware stores, and the like, to increase sales and to elicit suggestions as to possible product improvements and marketing methods, (2) increase retail sales by increasing the firm's exposure to those persons who could be termed "potential retail customers," and (3) try to gain a place of prominence among members of the city's business community.

Although Wright and Garrett recognized the importance of the marketing program and were eager to begin, Garrett was somewhat reluctant to approve any plans requiring an outlay of cash unless immediate returns were visible. As an example, our original plan for three mailings to home remodelers was cut to two upon Garrett's recommendation. Wright, however, felt that "In order to make money, you have to spend money."

In March 1970, Amity was approached by the city's Realtor's Home Show committee about the possibility of renting a booth at the 1970 show. Management, with divided opinions (Wright for and Garrett against), asked our advice as to whether they should participate. Initially, one consultant felt it would not be a worthwhile investment of funds. The other consultant however, agreed with Wright. After some research on who attended the shows and who would be exhibiting this year, it was decided that it could actually be very profitable and the venture was undertaken.

It was a very profitable experience for Amity. All potential customer leads have still not been contacted, but over $3,000 worth of orders were received as a direct result of the show. The cost was less than $300.

In April and May of 1970, Wright with the help of the consulting team, began making sales calls to potential wholesale customers. As a result of these calls, Amity received the go-ahead to put display units of its products in a major local hardware chain and in the largest local lumber company. The firm also received promises of future business from area lumber yards.

The sales calls pointed up the need for a mill finish door and window in the product line. The new mill finish products now have been added.

The sales calls also revealed that the firm's price list was inconsistent as far as margins for retail sellers of its products. Margins varied considerably among different types of windows and doors, so a new price list, effective June 8, 1970, was developed. This price list holds margin of profit on retail selling price at 25 percent for all products. From what we can determine, the normal markup for the industry is 33 1/3 percent. We felt, however, that to compete with other brands at the present retail price and also give a 33 1/3 percent margin would be too costly. Amity would have had to drop their wholesale price in some cases to below the cost of manufacture. If sales increase sufficiently to justify better, more efficient mass production tools and techniques, it is recommended that margins be increased to the industry level.

Because of the time contraints involved in our work, we decided it would not be possible for us to continue making sales calls on prospective customers as we had hoped to do. Instead, Amity attempted to assemble at a breakfast meeting, as many people as possible who could be of benefit to the company. Garrett chose not to participate actively in the breakfast because of what he felt might be visible "conflicts of interest" with his newly acquired alderman role.

Amity sponsored a breakfast at the Pancake House on May 13, 1970. Invitations were printed by automatic typewriter to give a personal appearance and were sent to approximately 40 prominent business people in the city. Of the 40 invited, 19 attended. Cost of the breakfast to Amity was $1.70 per person.

The breakfast meeting began at 7:30 a.m. with a formal demonstration of Amity's products, a slide presentation of the production facilities and the home show display, and an outline of Amity's marketing program. A question period followed. Judging from the enthusiastic participation in questions from the floor, the breakfast appears to have been successful.

A report of the breakfast appeared in the Sunday issue of the leading local newspaper. As a result of the article and the exposure gained from it, over $900 in orders were received the next day.

The several efforts made in the marketing area had a visible effect on Amity's operations. In spite of a weak construction market, the firm had surpassed total 1969 sales by the end of June.

Banking Relations

At the end of the first semester, we determined the need to become known in local business and finance circles We made this determination based on a need for sales and a need to obtain debt and/or equity financing. The firm was using a small bank with limited service available for business depositors. We impressed upon our clients that other banks had services available to their customers at no charge and that we needed these services. We also stressed the need to develop strong credit relations at a bank with influence in order to use that influence in our business dealings.

After we formally changed banks, we began to cultivate relations with key bank officers. We had initially assumed that changing accounts would automatically result in an outpouring of help from the bank. This did not happen, so we decided to make a concentrated effort in this area. Our initial course of action was to start calling on a bank officer regularly, submitting reports and passing on information about our firm and its activities. This effort resulted in very strong support from the bank, its functional departments and a number of its officers. They contributed measurably to the success of our breakfast by providing both a mailing list and follow-up phone calls to the persons contacted.

The marketing vice president was singularly significant in helping us to gain access to the business editor of the local newspaper which published an article on the firm. We strongly suggest that strong emphasis be placed on developing good banking relations early in future consulting activities. If handled properly, good banking relations can save a fantastic amount of effort that would be required to accomplish certain financial community objectives.

Summary and Evaluation

Amity is definitely headed toward success and prosperity if it can get its internal operating procedures under control. Organization is the biggest hurdle to overcome. All of the functional areas of the business have shown marked progress over the last seven-month period. Wright must now learn to function as an administrator, increasing the productivity of the functional areas. The increase in sales the firm is currently experiencing has already generated some degree of chaos. The current operating procedures are definitely not capable of accepting an additional increase in sales without losing money.

The second most important hurdle to success for Amity is that of equity capital. Limited equity capital has had a detrimental influence on important business ratios that are vital to Amity's credit and working capital. The owners still seem somewhat unaware of this point. The consulting team members have the impression that the owners are reluctant to seek out equity capital for fear of having to share eventual profits.

MR. R's HAMBURGERS

Mr. R's is a restaurant franchise similar to McDonald's, but the Mr. R's restaurants have booths for eating inside. In operation since April, 1969, Mr. R's is located near a local high school in the city's inner core. Clientele is comprised mainly of middle-aged blacks and school children from the area.

Management and Organization

The operation is completely staffed by black personnel. Bill Roberts, 34, is president of Mr. R's. He was born in Tennessee but has lived in the north since the age of four. He lettered in track at Marquette University, where he graduated in 1959 with a degree in history and political science.

Roberts is active in community organization and leadership. He serves as commissioner for the Social Development Commission, and was the former director of youth work for the local YMCA – a post which he held for seven years. He serves as chairman of the Central City Businessmen's Federation, an organization he founded.

In 1964, Roberts opened Bill's Billiards and Bowling, which in 1966 became the Cue Ball – a modern, 21-table, fully-equipped family billiards parlor. In 1967, he founded and became chairman of the board of the Central City Reporter – a local newspaper. April 1969 marked the opening of his initial Mr. R's unit. Mr. R's is a franchise unit from Eat-Right Systems, Inc. It is intended to be a complete sub-franchising operation and as such, the name Mr. R's distinguishes it from the regular chain.

As a Mr. R's franchisee, Roberts is given managerial training and advice and can use the Eat-Right systems accounting service. Constraints are those typical of any franchisor-franchisee arangement: requisite purchase of equipment and patents from the parent organization, and purchase of packaging and other nonperishable supplies from the parent organization.

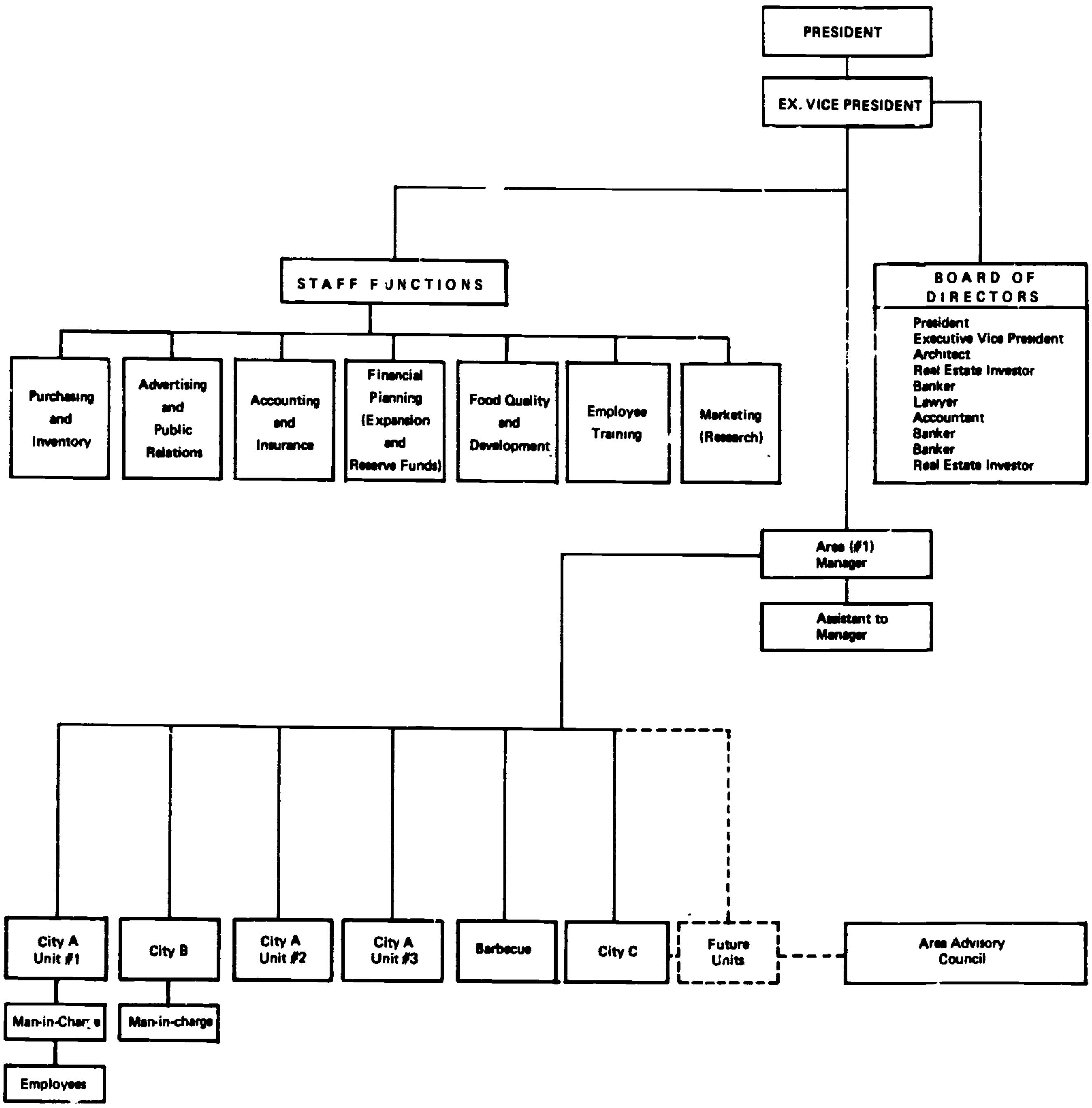
Goals and Planning

Roberts' immediate and long-range plans involve growth for the Mr. R's system. In three to five years he plans to franchise a "cluster" of five Mr. R's units operating in the state's major cities. In the long term, he hopes to expand this "cluster" concept to other selected areas in the Midwest. Further goals include organizational development permitting maximum flexibility, so as to draw upon the individual expertise of the organization's members, and maximum efficiency in the operation of individual units, which will lead to a maximization of profits via stringent control procedures for the franchisor and franchisee.

Administrative Structure. We were presented with the problem of devising a feasible administrative structure which would facilitate and complement the proposed franchising operations of Mr. R's. After consultation with the client and with experts in the field of organization, the student team proposed the organizational structure which is shown in Figure 1.

Figure 1

MR. R's ORGANIZATIONAL STRUCTURE



Finance. Although accounting data was available in some detail, we were confused by some of the account categories and by fairly wide month to month variations of expenses in relation to sales. After identifying apparent problem areas, we met with Roberts to discuss possible changes. Our meeting was very productive in spite of some disagreement as to what changes should be made. We concluded the exchange on a friendly basis, having worked out a compromise scheme for keeping the records. Tables 1 and 2 present some of the operating data involved in the discussion.

Table 1

MR. R's HAMBURGERS
PROFIT AND LOSS STATEMENT
First Unit, 4/1/70

NET SALES	$302,000
COST OF SALES	
Food	114,500
Paper	16,000
Labor	67,200
Advertising	4,000
Total	201,700
GROSS PROFIT	100,300
OPERATING EXPENSES	
Linen and Laundry	2,200
Supplies	
Maintenance	5,[illegible]00
Telephone and Utilities	7,200
Payroll Taxes	5,175
Office Expense	570
Group Insurance	1,900
Property and Liability Insurance	3,300
Property Tax	3,725
Other	3,800
Total	35,620
OPERATING INCOME	64,680
OTHER EXPENSES	
Building Rent	9,500
Interest	3,200
Royalties	23,000
Legal and Auditing	4,500
Total	40,200
NET PROFIT BEFORE TAX	$ 24,480

Table 2

MR. R's HAMBURGERS
MONTHLY SALES AND EXPENSE VARIATIONS

Month	Sales	Food Expense	Percent of Sales
January	$ 18,000	$ 9,200	51
February	19,000	5,100	26
March	25,700	8,200	31
April	26,000	9,500	36
May	30,500	12,200	40
June	29,700	12,000	40
July	32,500	13,100	40
August	31,800	8,700	27
September	24,000	10,000	41
October	23,800	7,500	31
November	22,000	8,900	40
December	19,000	10,100	53
TOTAL	$302,000	$114,500	48

Marketing. We suggested to Roberts that a brief survey of his customers might serve to provide him with valuable information for promotion. We offered to prepare the survey design and evaluate results using the University's computer and he was enthusiastic. We suspected that the association with a scientific study excited him and that he could see the usefulness of having such a study when he went to obtain financing for expansion. To keep the costs down, we decided that we would limit our objectives to finding out (1) who his customers were, (2) where his customers lived, and (3) why they came to Mr. R's.

A survey design, including a questionnaire, was developed and Roberts was to print several hundred copies and conduct the survey among customers at his restaurant. There were some delays and when the survey was first conducted, several errors were made. After considerable discussion, the survey was redone, but unfortunately limited to one day. Roberts was to code the results, but after several weeks he had not done so.

We then did the coding (unfortunately having to eliminate address information, which we could not interpret) and made an analysis. Roberts was very pleased with the final results, although we pointed out that the failure to conduct the survey as designed and the necessity of dropping address information reduced its value considerably.

Investment Portfolio. One of our major assignments was the development of an investment portfolio that Roberts could use to convince prospective investors or lenders to provide him with the capital that he would need for expansion. We talked with persons in the banking community to determine what content should be included. Considerable time was spent working out an acceptable pro-forma operating statement as well as obtaining personal information about Roberts.

During this project, the objective shifted to one of providing potential franchisees. Much of the needed information was similar to what we had gathered, but some added data needed to be collected. We ended up providing an outline and some of the necessary data, with Roberts finalizing the portfolio as he saw fit and as the need arose.

Problem Areas

Personnel. The employee turnover at Mr. R's averaged about 15 percent monthly. It is difficult to obtain maximum operating efficiency when the staff turns over at this rate. Lack of enthusiasm on the part of some of the serving staff is a related problem. Fast, courteous service seemed all too often to be a function of how the employee felt on that given day and whether any of his or her friends were within the restaurant to converse with instead of catering to waiting customers. Loud conversations, and complaining by personnel at the grill that could be overheard by customers was also a detriment to the business.

Personnel training is another area which needed to be improved (the complete training program is not yet solidified) and personnel scheduling problems existed because of the lack of a centrally located time chart. Construction (now complete) and careful maintenance of a large scheduling board adjacent to the main office will lessen the effects of absences and tardiness due to communication failures. Another suggestion for improvement of the labor's performance is to keep employees for the entire scheduled shift, rather than dismissing them when a slack period occurs. These employees might be used more advantageously in work either downstairs or in the back room.

Finally, there is a definite need for a full-time secretary. The firm lacks a good filing system and consequently many important documents are lost or misplaced. In addition, it was difficult during the course of our consulting to locate Roberts, who divided his time between the restaurant, the Cue Ball and his newspaper. Messages were seldom relayed to him. During our visits, food orders and deliveries were often in error due to communication failures between the different individuals placing and receiving orders on given days. The addition of a full-time secretary to be located in the basement office would enable adequate coordination of all these efforts. With the addition of a second unit in the city, the student team suggested that the employment of such a staff member was imperative. Roberts agreed to consider our proposal.

Competition. Because of the lack of progress toward expansion made in the second semester, we became concerned about the need to push Mr. R's to beat competitors to choice locations. The advantage of being the first in any given area cannot be overstated. Other franchisors are bound to seek franchisees in the inner city as the profit potential of the area comes to light. Consequently, any expansion plans for Mr. R's must be implemented with haste if competitive advantages are to develop.

Food Quality. After personal experiences, we judged that the cooking of Mr. R's chicken lacked the close tolerance which must be maintained to produce uniform, consistently tasty chicken. Perhaps, in large part this resulted because the person preparing the chicken was not aware of how deviations from prescribed cooking instructions affect the end product. Consulting with an outside expert, we were able to suggest procedures that would result in more uniformly tasty chicken.

Too, there was a decided variation in the quality of both Mr. R's Dandyburger (which along with other sandwiches had been plagued with a rash of burnt buns), and french fries. Although the meat problems were attributable to a change in suppliers, and the fries improved with a change in potato quality, nevertheless, this was an area of concern that we emphasized to Roberts. Part of the growing consumer acceptance of fast food franchises is largely predicated upon the expectation that food quality is the same – time after time – at any individual unit in the family chain.

Cash Handling Procedures. There appeared at the outset certain requirements for the handling of cash in fast food outlets: **speed** to handle peak periods and fast turnover; control of money, merchandise and people; **information** in the form of menu "item" counts, dollar sales by item; **simplicity** because of high turnover of unskilled people, and large sales volumes; and **accuracy** because of fast turnover, multiple-time purchase, and small profit margins.

While the register systems at Mr. R's were adequate in some of these regards, they were lacking in others. After discussing the matter with a representative of National Cash Registers, we presented Roberts with descriptions and price information about cash registers, including discounts based on both number of units bought and dollar volume.

We recommended that Roberts strongly consider trading in his present register model for one of the newer technologically advanced models. Furthermore, with the tentative opening of a second unit later in the year, we urged that the new register system be employed there.

Inventory. It was readily apparent that inventory procedures were greatly hampered by the chaotic positioning of supplies in the basement. Construction of shelving space (now complete) across the back and side walls of the basement will enable a much quicker and more highly accurate inventory.

Summary and Evaluation

When we started on this project in the fall of 1969, the initial Mr. R's unit had been in operation for only five short months and problems under-

standably were still being identified. Now we strongly feel the time has come to act upon them if the internal efficiency and the image of Mr. R's is to be maintained.

We feel that the chances for successful expansion are very good. However, Roberts has a commitment to other business interests and civic groups. Consequently, there are many times when the unit is unmanned by a competent manager or supervisor. Too, Roberts devotes little time to long-range planning which is paramount to successful growth. The organization all too often appears crisis-oriented rather than devoted to any concept of organizational planning.

In conclusion, we feel that if the Mr. R's system is to achieve fruition, Roberts will have to take an increasingly active interest in the unit and organization. Short-range and intermediate goals must be constantly re-evaluated and long-term plans must be developed and re-examined in light of ever-changing competitive conditions. The problems identified on the foregoing pages must be dealt with soon if the organization is to be maintained, let alone expand. In short, a choice between business interests and community leadership interests faces Roberts and a definite choice is imperative at this critical time.

QUALITY TRUCKING, INC.

Quality Trucking is a contract carrier hauling principally to 18 counties in Wisconsin. The owners specialize in hauling crated and uncrated furniture and small packages. The company was organized in 1965 and incorporated in 1968. It is owned equally by Richard Jones and James Kronsky.

Jones, 45, worked with trucks in the motor pool during his seven years in the Army. When he returned to civilian life, he drove trucks for several companies before buying his own and becoming a free-lance operator.

Jones has two sons, both of whom have Bachelor's degrees in business administration. He's taking two night courses in marketing. He appears to be the senior pa-tner of the firm.

Knonsky's family owned a trucking company. He drove a truck for his father, but was not involved in management until the formation of Quality Trucking. Kronsky, 35, is a stubborn man and distrusts books, school, or any form of self-improvement.

Employees and Equipment

Quality owns 13 trucks ranging from Econolines to 48,000 pound capacity freighters. The firm has 12 full-time employees including two office girls and 10 drivers and driver-helpers (two men are usually needed for furniture runs). A part-time mechanic and one of the drivers takes care of the on-site vehicle maintenance. Part-time help is utilized during busy periods. Employees are not unionized, and drivers earn a minimum of $3 per hour and work about nine or 10 hours per day. Employees are both black and white.

Marketing

Sales for 1966 were approximately $90,000; for 1967, $125,000; and for 1968, $160,000. Sales of $180,000 were projected for 1969. Financial statements for the firm are presented in Tables 1, 2, and 3.

Although Quality has authority under eight articles as specified in their charter, the principal business is in the following two areas:

1. Hauling crated and uncrated furniture from point of pickup directly to point of delivery. This activity, which comprises 70 percent of Quality's business, was until March 26, 1970, restricted to shippers who were not changing residence or place of business.

2. Hauling data processing materials for Data Services Corporation (DSC) within the state of Wisconsin. Quality Enterprises (a separate firm) provides the same service for DSC under a leasing arrangement to a three-state area.

Approximately 60 percent oc company sales comes from Walther & Co., one of the larger medium priced furniture dealers in the city. About 20 percent comes from DSC and the remaining 20 percent from several smaller customers. The firm's principal competitors are Western Transfer and Cartage and Schlieffer Trucking, which operate in the county; Furniture City of

Sheboygan, which operates in Wisconsin, Illinois, and Iowa; Surety, a principal carrier of small packages in the county; and two mail services, Guaranteed Mail Service, and City Transit.

Rates are not registered or regulated; however, this may change if Quality's authority is extended to allow state-wide hauling of furniture. Since the firm is in a competitive pricing environment, rates on furniture are set on a graduated scale based on value. Small package rates are taken from parcel post.

Finance

Acquiring financing does not appear to be a major problem for the firm. For example, during a recent negotiation to buy a warehouse, Quality had a line of credit in excess of $250,000. The firm uses the following professional services: William Rogers, a transportation lawyer; Abraham and Smith, CPA's; Ford Motor Credit Company; Hartford Insurance Company; and the American City Bank.

Relationship with Client

During our initial meetings, we noticed a certain antagonism between Jones and Kronsky. Jones suggested that we deal only with him. After a few weeks, however, we realized the arrangement was unsatisfactory. We didn't know what could be said in Kronsky's presence. On several occasions, when we arrived at the office, Jones was not immediately available and we chatted with Kronsky. Then it became evident that Kronsky was the major decision maker and if we were going to get any of our suggestions implemented, it would be necessary to win his confidence.

We suggested to Jones that we could not be effective in working with Quality unless we had the full cooperation of both partners. Jones acquiesced.

New Ventures

American Motors Part Sorting. We assisted Quality in its negotiations for an American Motors parts sorting contract. The contract entailed sorting of new auto parts that were sent back to the plant or warehouse by dealers throughout the state. At the time of the negotiations, the parts were being sorted by AMC employees who were paid a minimum of $3.90 per hour. There was a 50-load backlog of unsorted parts with more coming in daily.

Quality had gotten involved in the contract negotiations through James Vance of the Urban League. Vance, who had been previously employed by AMC, was acting as a middleman in the negotiations. He felt that because there was some hauling involved, Quality might be able to more fully utilize its vehicles and realize a profit from the sorting.

The company that received the contract would need a warehouse, a conveyor and fork lift and a man to operate the lift, plus eight women employees for the job. The contract paid the normal rate for hauling the parts to and from the warehouse plus $1.50 per line for sorting.

Table 1

QUALITY TRUCKING CO., INC.

STATEMENT OF OPERATIONS

1966-1968

	Partnership 1966	Partnership 1967	Corporation 1968
RECEIPTS			
Service Income	$ 65,000	$128,000	$145,000
Interest and Dividends	100	200	------
Total	$ 65,100	$128,000	$145,000
OPERATING EXPENSES			
Wages	23,000	57,000	61,000
Payroll Taxes	500	4,900	4,200
Subcontracts-Moving	2,500	2,000	800
Promotion and Entertainment	800	3,800	5,200
Truck Expense and Maintenance	7,345	20,180	36,490
Rent	1,600	4,700	2,300
Utilities and Telephone	1,075	1,520	1,550
Licenses and Dues	350	1,050	1,600
Shop Supplies and Expense	1,000	500	100
Insurance-Property	1,700	5,500	7,200
Insurance-Life	100	600	---
Uniforms and Laundry	500	500	300
Office Supplies and Expense	1,100	1,600	1,400
Professional Fees	200	2,300	900
Customer Claims and Damages	330	1,150	1,760
Interest	300	800	1,000
Depreciation	2,300	5,300	6,200
Miscellaneous	1,000	100	300
Organization Expense Written Off	---	---	100
Personal Property Tax	---	---	100
Total	$ 45,700	$113,500	$132,500
PROFIT BEFORE OFFICER'S SALARIES	$ 19,400	$ 14,700	$ 12,500

Table 2

QUALITY TRUCKING CO., INC.

STATEMENT OF OPERATIONS

(For the Six Months Ended June 30, 1969)

(Accrual Basis)

		AMOUNT
SERVICE INCOME		$ 95,100
OPERATING EXPENSES		
Wages	$ 35,000	
Payroll Taxes	4,200	
Sublet-Movers	1,200	
Entertainment, Advertising, Promotion	1,750	
Truck Expense and Maintenance*	22,000	
Rent	1,150	
Utilities and Telephone	1,400	
Licenses	600	
Shop Supplies and Expense	100	
Insurance	5,700	
Corporate Life Insurance	400	
Uniforms and Laundry	700	
Office Supplies and Expense	1,850	
Professional Fees	1,000	
Customer Claims and Damages	300	
Interest	600	
Depreciation	3,800	
Donations	300	
Personal Property Tax	60	
Organization Expense Written Off	30	
Miscellaneous Expense	500	82,640
NET SERVICE INCOME		$ 12,360
OTHER EXPENSE, NET		
Loss on Disposal of Fixed Asset	500	
Income Taxes, Prior Year	250	750
NET INCOME BEFORE OFFICERS SALARIES		$ 11,610
OFFICERS SALARIES		7,000
NET INCOME BEFORE INCOME TAXES		$ 4,610

*In many instances truck repairs were capital investments and should have been amortized.

Table 3

QUALITY TRUCKING CO., INC.

BALANCE SHEET

(June 30, 1969)

ASSETS			
CURRENT ASSETS			
Cash In Bank and On Hand		$ 4,000	
Accounts Receivable		17,000	
Sundry		200	$21,200
DEFERRED CHARGES			
Prepaid Interest		4,500	
Prepaid Supplies		1,500	6,000
FIXED ASSETS			
Trucks and Delivery Equipment		46,000	
Furniture and Equipment		2,100	
Leasehold Improvements		600	
		48,700	
Less: Reserve for Depreciation		14,000	34,700
OTHER ASSETS			
Investment – Quality Enterprises		500	
Trucking Rights		3,000	
Organization Expense		210	3,710
TOTAL ASSETS			$65,610
LIABILITIES AND NET WORTH			
CURRENT LIABILITIES			
Notes Payable – Trucks (Current Portion)		$13,000	
Accounts Payable		9,500	
Accruals – Income Taxes	$ 200		
Payroll	300		
Payroll Taxes	4,000	4,500	$27,000
DUE TO OFFICERS			12,000
LONG-TERM LIABILITIES			
Notes Payable – Trucks		30,000	
Less: Current Portion Deducted Above		13,000	17,000
NET WORTH			
Capital Stock		4,000	
Surplus – 1/1/69 Cash Basis	$1,000		
Net Profit for the Six Months Ended 6/30/69	4,610	5,610	9,610
TOTAL LIABILITIES AND NET WORTH			$65,610

We were not able to get a clear definition of a line or what time period was to be used. Nor were we permitted to talk with AMC; we had to rely on the information brought back by Vance. Eventually, negotiations were broken off upon orders from AMC's Detroit office. AMC was experiencing union difficulty in its local plant and felt that taking this work away from the plant might worsen matters.

CEP Bussing. Quality was also negotiating through the Urban League for a contract to carry disadvantaged workers to and from the inner city to plants in outlying areas. The firm handling the service had decided to discontinue it. However, when the firm learned future contracts would be federally funded it changed its plans. The contract with Quality was therefore opposed.

Integrated Furniture Warehouse. Quality was intrigued with the possibility of having its own warehouse, so much so that any deal that involved a warehouse was given much consideration. Kronsky had a dream of a two-level integrated warehouse that would offer storage and display space for many furniture manufacturers, wholesalers, and retailers. He even had sketches showing the layout, and if given the slightest provocation, would spend hours talking about it. Such a warehouse is in operation in St. Petersburg, Florida.

The idea itself sounded good and we started a feasibility study for such a facility locally. We abandoned the study, however, when it became apparent that Quality had pressing organizational problems which needed attention.

Problem Areas

Management. Poor management was a factor in all of the major problems facing the company. A number of smaller problems could also be attributed to the management and communication conflict. For example, there was a lack of employee discipline (considerable time was lost due to loitering in the offices and unexcused absences) and some disagreement as to the value of the time spent with the Urban League, the desirablity of keeping certain accounts, and how management responsibilities should be divided.

During one of the meetings with the managers we attempted to demonstrate the value of frank and open communication in solving problems. Our success was limited.

Accounting. During an early fact gathering meeting the student team discussed the company's accounting procedures with Jones and Kronsky. Both men were initially quite reserved and as a result little pertinent information was obtained. It took several meetings and a lot of independent digging to come up with any useful information. Jones was more open than Kronsky, but on occasion he also held back information because he was ashamed of the general state of affairs of the company's accounting system.

Quality had previously lost accounts at two banks because of its check writing methods. According to Jones, Kronsky felt it was the bank's responsibility to care for the "bookwork" involved in writing checks. Kronsky wrote checks without recording the amounts or dates and made

deposits "when he had the money." He was upset when the banks informed him it was not their responsibility to cover all his checks "carte blanche." Too, Jones maintained a separate checking account in addition to the regular company checking account. According to Jones, company bills were paid from his account and then at a later date his account was repaid from the regular company account. We pointed out the fact that the IRS might view the double checking account procedure as a means of removing cash from the business without paying taxes. Jones, however, felt the second checking account was necessary to keep Kronsky from having anything to do with the company books.

However, even though Jones realized the accounting procedures were inadequate, he refused to do anything because "all his previous efforts to improve procedures were thwarted by Kronsky."

Part of the blame for poor company records could be placed on the company's accountant, Ben Abraham. Abraham showed very little interest in Quality's operations (maybe due to its size or the sad state of its books) and was continually late in preparing quarterly statements. This tardiness twice cost Quality late tax charges.

We had difficulty setting up even a simple accounting system. There were few records kept concerning vehicle maintenance and repair. Those records that were kept were incomplete and very sketchy. Purchasing records were also very incomplete—or nonexistent.

Vehicle Maintenance. One of the firm's major problems was vehicle maintenance. Shown below is an analysis of truck expense as a percentage of sales.

Year	Truck Expenses	Sales	Ratio (%)
1966	$ $ 7,345	$ 65,100	11
1967	20,180	128,200	15
1968	36,496	145,000	25

If the same ratio of truck expenses to sales had been maintained in 1967 and 1968, as in 1966, an increase in profits of $6,078 in 1967 and $20,540 in 1968 would have resulted.

During our talks with the employees, it was stated that quite often a vehicle fault was reported and the only response was "we know it" until either the driver refused to drive the truck or something major occurred that made repair absolutely necessary. We designed a vehicle maintenance system to alleviate the problem.

The system includes both preventive and periodic maintenance to provide both a schedule for maintenance of each vehicle and a record of maintenance and repairs in a simplified form. This system, if used properly, not only aids in keeping vehicles in good repair but is also an aid to management decisions, i.e., vehicle replacement, major overhauls, and the like. The system consists of five parts: (1) a daily preventive maintenance checklist, (2) an equipment inspection and maintenance worksheet, (3) a checklist for periodic service, (4) an equipment service record, and (5) a preventive maintenance schedule and record. (See Tables 4, 5, 6, 7 and 8.)

Table 4 VEHICLE #

QUALITY TRUCKING, INC.
DAILY PREVENTIVE MAINTENANCE CHECKLIST

ITEMS TO BE CHECKED	DATE													
Before starting:														
1. Fuel Added (Gallons)														
2. Speedometer Reading														
Before Strating Vehicle														
3. Levels (Fuel/coolant/oil)														
4. Battery (Water level)														
5. Leaks (Air/oil drips)														
6.														
7.														
8.														
9.														
After starting: 10. Tires														
11. Damage (Exterior/Interior)														
12. Horn														
13. Lights & reflectors														
14. Instruments														
15. Windshield wipers/washers														
16. Clean Windshield														
17. Steering														
18. Safety Devices														
19. Brakes (Drain Air Tanks)														
20. Hydraulic System														
21. Noises														
22. Mirrors														
23. Clutch														
24. Fire fighting equip.														
25. Heater/Defroster														
26.														
27.														
28.														
29.														
30.														
Initials of person making inspection														

DATE ____________ REMARKS ____________________

Vehicle #

Table 5
QUALITY TRUCKING, INC.
Equipment Inspection and Maintenance Worksheet

Date	Initial	Fault	Corrective Action	Date	Initial

Vehicle #

Table 6
QUALITY TRUCKING, INC.
Checklist for Periodic Service

	Check (✓)
1. Engine — Check for obvious noises, defects, and leaks	
2. Cooling system — Check for leaks, hoses	
3. Electrical system — Check lights, switches, cords, plugs, horn, and wipers	
— Service battery and check wiring	
— Check generator or alternator	
4. Brakes — Check both service and parking brakes	
5. Steering — Check for slack and obvious defects	
6. Chassis — Check for defects in frame, springs, brackets, cross members, etc.	
— Check lift gate operation	
7. Lubrication — Complete chassis lube	
— Drain all air tanks	
— Wheel bearings	
— Change oil and filter	
— Check level in trans. and diff.	
— Change or clean fuel filter	
— Check master cylinder	
—Service air cleaner	
8. Safety equipment — Check and service	
9. Others (specify)	
10.	
11.	
12.	

Table 7
QUALITY TRUCKING, INC.
Equipment Service Record

Vehicle #

Make Model Year Serial # Motor = Motor #

Empty Weight Gross Weight Capacity (Cu. Ft.)

Date	Minor Service Days	Miles	Date	Major Service Days	Miles

Enter Date and Show Whether Unit Was Overhauled (O), Exchanged (E), New (N), Used (U)

Motor	Clutch	Trans.Diff.	Starter	Generator	Fuel Pump	Carburator	Distr.	Radiator	Air Comp.				

Table 8

VEHICLE #

QUALITY TRUCKING, INC.

PREVENTIVE MAINTENANCE SCHEDULE AND RECORD

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	1
Jan																															
Feb																															
Mar																															
April																															
May																															
June																															
July																															
Aug																															
Sept																															
Oct																															
Nov																															
Dec																															
Remarks:																															

Rate Setting. There was a general lack of agreement between the managers concerning what costs should be included in rate setting. They did not know the costs and failed to discuss the problem. As a result, each partner used what he felt were the proper costs and arrived at different rates for contract negotiation. Based on cost figures taken from the books we developed a system for determining rates, which included a cost sheet for each vehicle, definitions of all costs involved, and examples of how these costs should be used in setting rates.

Scheduling and Routing. Kronsky often scheduled too great an imbalance in stops per day for trucks. On the same day, one truck might finish its deliveries at 2 P.M. while another continued until 11 P.M. He also felt that Quality could save money by doubling up on routes on slow days. The cost in poor employee morale probably outweighed any savings that might have been gained. In addition, Kronsky didn't maintain a fixed crew on a given truck. Juggling of crew makeup eliminated any possibility of the driver and helper becoming more efficient due to knowledge of each others capability. Assigning a certain vehicle to a particular crew could result in better care of the vehicle as well.

Kronsky felt that scheduling was such a difficult task no one else could learn how to do it in five years. As a result, he was not willing to delegate this responsibility to anyone.

Petty Cash Fund. There was no "system" for the operation and control of the company's petty cash fund. At times drivers were allowed to take money for company and personal reasons without recording the amount taken and the proposed use for the money. Poor control of petty cash resulted in relatively large losses of money. In light of this, we recommended the following: (1) A detailed list should be made of all the valid uses for petty cash and money should only be drawn for these specific uses, (2) Petty cash should be the responsibility of one person, perhaps an office girl, and (3) All requests for petty cash should be made using a proposed petty cash request form.

General Housekeeping. This problem seemed almost paradoxical in nature; both Jones and Krosnsky complained about not having enough space for indoor storage and outdoor parking, yet no move was made to clear the parking area of junked cars, trucks, engines, and old auto parts. The same was true of the storage room. One side of the room was piled to the ceiling with boxes of junk and some useful equipment, while on the other side of the room there were empty shelves, cabinets, and tables.

We pointed out that correction of this situation would probably result in a 25 percent increase in usable storage area. In addition, such a clean up would reduce the potential for fire and provide more pleasant working conditions.

Summary and Evaluation

We feel that Quality's major problem is the inability or unwillingness of the managers to work together as a team. Evidence of this is found in their failure to agree on rates, and the use of the double checking account. Some of the problems such as vehicle maintenance, record keeping, and the control of petty cash could be corrected through the use of the new systems we suggested.

Quality has been in business for approximately four and one-half years, and although money is not being lost, the business is not especially profitable. We feel that Quality Trucking is on a collision course with failure. The continuing alienation of the people with whom it deals on a day-to-day basis, and the distrust that has developed between the two managers are severe enough to cause failure if left unchanged.

We do not feel that the two managers can continue to work together. Kronsky is stubborn and unwilling to listen to reason. Jones too often avoids a situation if it appears "sticky." He does not stand up for what he believes.

We proposed specific solutions to some of the firm's problems, but so far as the major problem is concerned—the personality clash—we can only suggest some possible alternatives:

1. Bring in a third partner to act as a "go-between" in settling the disputes. (However, this is contrary to our feeling that the managers cannot continue working together successfully.)
2. Dissolve the corporation, with one manager buying out the other.
3. Sell the business outright with neither manager retaining ownership.

These three alternatives are based on our belief that the business can be a money-maker if run correctly.

APPENDIX A

December 19, 1968

MEMORANDUM

TO: Graduate Studies Committee
FROM: W. A. Strang
SUBJECT: Course Proposal

Background

Several weeks ago, discussion about the possibility of instituting a consulting service for disadvantaged businessmen (with graduate students acting as primary members of the consulting team) began among several of our faculty. Pursuant to these discussions, I contacted Columbia University to learn about a similar program that they are operating. They feel their consulting service is a "fantastic success," which was encouraging to us. However, their program is highly developed and includes a formal tie with Arthur D. Little, Inc., a $60,000 budget, and a full-time director.

Our resources are more limited, but we felt that we might be able to institute such a program through a formal course offering called, perhaps "Problems in Small Business Management: The Disadvantaged Entrepreneur." There clearly are educational benefits to participating students and the course should be justifiable to the University. Students would have the incentive (credits) to spend the time required on "consulting" assignments and the professor would have the incentive to organize and direct the program (it would be part of his teaching load).

NEW COURSE PROPOSAL

PROBLEMS IN SMALL BUSINESS MANAGEMENT

Catalogue Statement

9—
and 9—* Problems in Small Business Management: The Disadvantaged Entrepreneur Yr., 3 credits; Prereq: Consent of instructor.

The application of business management knowledge to the problems of small business through case study; students will investigate the problems of an operating business and will offer solutions under professional supervision.

*If possible, this course might be given under an existing, but unused number or be made a special section of an existing course. This would simplify matters until the course has proven itself.

Course Benefits

From the viewpoint of the student, the course offers several benefits. First, it offers an opportunity to relate his textbook preparation to the solving of actual business problems. It also provides new knowledge, because relatively little of our current course content involves manage-

ment from the perspective of the small business manager. Students expecting to work in small business would gain directly and many others, expecting to work for large corporations, would gain indirectly by learning about the problems of potential customers (e.g., a future Proctor & Gamble product manager could conceivably do his case work in a grocery operation, thus preparing himself to effectively interact successfully with his distributors). Finally, the business student would gain by increasing his understanding about some of the important socio-economic problems of our society, (e.g., the decline of the small businessman; the alienation of the black American from society—initial cases at least would involve black entrepreneurs).

From the viewpoint of the disadvantaged entrepreneur, the course (program) would offer him an opportunity to obtain valuable advice about the operation of his business and to learn new business management techniques. Black entrepreneurs would also be shown the concern that members of the white business community have in effectively integrating him into the socio-economic system.

From the viewpoint of the School, this course would demonstrate to business and other students, faculty throughout the University, administrators, government, and the general public, our concern about the problems of the black American and the existing divisions in our society. In a minor way, we would be doing something to solve a major social problem within the basic structure of the existing socio-economic system.

Relationship to Other Courses

Because it is directed toward the solving of small business management problems faced by the disadvantaged entrepreneur, the course has no direct overlap with other business school courses. The 839-340 case problems courses indirectly overlap with this course as both are case-oriented to managerial problems, although the approaches (textbook cases versus actual cases) are considerably different. Some thought might be given to excusing students who take this course from one or both semesters of 839-840. This would be especially important for the black students we would hope to enroll in the course, because their course loads are presently very tight.

Course Content and Organization

Content:

The exact problems considered will vary depending on the problems inherent in the cases chosen. However, as the student "consultants" will remain with a single case for two semesters, they will be evaluating many aspects of their "client's" operations.

Organization:

1. During the initial semester, the course will be limited to 12-16 students chosen by the instructor on the basis of maturity, formal training, working experience, and past academic performance. These students will be divided into consulting teams with each team having balance in terms of the students' experience, maturity, and capability.

2. During the first month of the course, training sessions will be held to prepare students for their assignments. These will include sessions with the Director of the Columbia University program, with management consultants (problems and approaches to consulting), and with persons who are familiar with and sensitive to the nature of ghetto business conditions and ghetto businessmen.

3. The second through ninth months of the program will involve consulting assignments, team meetings with the instructor, and class meetings to allow the exchange of experiences among the teams.

4. To provide assistance to the teams beyond the area of specialty of the course leader, channels of communication will be established between teams and professors from other functional areas (professorial participation will be vouluntary). Teams will not regularly call for assistance from these non-course professors, but only go to them when the need arises. Similar "special consultant" arrangements will also hopefully be made with local businessmen who have experience parallel to the clients served by the teams.

5. Additional resources will have to be identified for the student teams (e.g., financial institutions willing to consider loans, insurance companies insuring high-risk businesses, legal aid organizations, community development organizations, etc.).

Summary

This course proposal seems to involve two things—first, a new course, and second, a consulting service for disadvantaged businessmen. The course alone seems justifiable on the basis of the learning experience offered. The course requires the program (and vice versa). The organization of resources for the smooth operation of the course will require time, so I recommend we begin offering the course in the fall semester of 1969-70.

We have an initial grant of $2,000 to cover travel expenses related to organizing the consulting service. This money would also be used to pay student travel expenses during the first year. I would be interested in teaching the course during the first year and would be willing to do the necessary organization. Professor Peters has also indicated an interest in teaching this course.

Hopefully, you will agree to the desirability of offering this course and will be able to place it under an existing course number. If you should desire to make this an entirely new course (new number), I will be pleased to rework the proposal for submission to the divisional committee.

WAS:jbr

APPENDIX B

APPLICATION FORM
for
BUSINESS 216-792-2

PROBLEMS IN SMALL BUSINESS MANAGEMENT: THE DISADVANTAGED ENTREPRENEUR
Instructor: William Strang

Name ______________________________ Age __________

Local Address ______________________________ Phone __________ .

Home Address ______________________________

I have a car that would be available for travel (expenses reimbursed) ______________ .

Yes ______ No ______

Educational Background

1. Undergraduate Degree ______ School ______________ Major ______
2. Graduate Degree in Process ______________ Major Field __________ GPA ______ .
3. Professor familiar with your work ______________________________

Work Background (list beginning with most recent)

1. Position ______________________________

   Company ______________ Length of Time Held ______________ .

   Experienced Gained ______________________________
2. Position ______________________________ .

   Company ______________ Length of Time Held ______________

   Experienced Gained ______________ ______________ .
3. Position ______________________________

   Company ______________ Length of Time Held ______________ .

   Experienced Gained ______________________________

General

1. What special talents do you feel that you have to offer as a business consultant?

2. Why are you interested in taking this course?

APPENDIX C

COURSE OUTLINE

Text: Lawrence L. Steinmetz, John B. Kline, and Lonald P. Stegall. *Managing the Small Business.* Richard D. Irwin, Inc., Homewood, Illinois, 1968.

Required Reading:

William H. Grier and Price M. Cobbs. *Black Rage.* Basic Books, New York, 1968.

Malcom Little. *Autobiography of Malcom X, 1925-1965.* Grove Press, New York, 1966.

Topics and Speakers, First Four Weeks

"Black Capitalism," Professor Strang

"Black Capitalism — Reactions from the Black Community," black economic development leader from our market area.

"Advice to the MBA Consultant," representative from Columbia MBA Consulting Program.

"A Case Problem in Small Business," Professor Strang

"The Ethics and Responsibilities of a Consultant," president of a management consultant association.

"A Small Business Growth Story," president of a successful local manufacturing firm.

"The Black Businessman," an outstanding black businessman from our market area.

"Small Business Problems," director of a University management consulting project.

"Problems Consulting for Small Business," representatives from the Small Business Administration, Dun & Bradstreet, Inc., and a state small business assistance program.

Topics and Speakers, Remainder of First Semester

"Loan Financing for Small Business," Small Business Administration representative and the president of a local bank.

"Equity Financing for Small Business," an investment banker from Chicago.

"Accounting in the Small Business," a local Certified Public Accountant.

"Venture Analysis," Professor Strang

"Marketing Planning in the Small Business," Professor Strang

"Course Evaluation"

Topics and Speakers, Second Semester

"Marketing on a Small Budget," a partner in a local advertising agency.

"Team Reports and Discussions" (6)

"Black Economic Development—How?" Professor Strang

"Preparing a Final Client Report" Professor Strang

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Small Business Management

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Haynes, William Warren. *Pricing Decisions in Small Businesses.* University of Kentucky Press, Lexington, Kentucky, 1962.

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